2006-13842

McDonald's Corporation

2006 Annual Report

i'm lovin' it™

winning for our customers

Our Plan to Win represents a total commitment to customers.

This Plan is focused on continuously increasing McDonald's relevance to consumers' everyday lives through multiple initiatives surrounding the five key drivers of great restaurant experiences.

Our efforts, complemented with financial discipline, have delivered for shareholders some of the strongest results in our history.

Lift the flap to learn more...

McDonald's Corporation will hold its 2007 Annual Shareholders' Meeting on Thursday, May 24, 2007, at 9:00 a.m. Central Time, in the Prairie Ballroom at The Lodge at McDonald's Office Campus, Oak Brook, Illinois. The registration desk will open at 7:30 a.m.

At the meeting, shareholders will be asked to:

1. *Elect four Directors;*
2. *Approve the appointment of an independent registered public accounting firm to serve as independent auditors for 2007;*
3. *Act on two shareholder proposals, if presented; and*
4. *Transact other business properly presented at the meeting.*

Your Board of Directors recommends that you vote FOR all nominees for Director, FOR the approval of the independent auditors, and AGAINST the shareholder proposals. Your vote is important.

If you are unable to attend the meeting in person, you may watch a live webcast by going to www.investor.mcdonalds.com and selecting the appropriate link under "Webcasts." A replay of the Annual Shareholders' Meeting will be available for a limited time.

Please consider the issues presented in this Proxy Statement and vote your shares as promptly as possible. This Notice of the Annual Shareholders' Meeting and Proxy Statement and proxy or voting instruction card are being sent to shareholders beginning on or about April 9, 2007.

By order of the Board of Directors,

Gloria Santona
Secretary

Oak Brook, Illinois
April 9, 2007

Corporate governance

Corporate governance practices remain an important focus for all public companies, including McDonald's. Our Proxy Statement responds to requirements of the Securities and Exchange Commission (SEC) and the New York Stock Exchange (NYSE) in this area, but we believe that good governance is more than a collection of regulations. It is the intersection of the relationships among our Board, our management and our shareholders and is informed by the values that have been the foundation of our business for more than 50 years—integrity, fairness, diligence and ethical behavior.

We believe good governance starts with a Board of Directors whose independence ensures candid and constructive engagement with management about all aspects of our business. Our Board has only one management member, the Chief Executive Officer, and all other Directors are independent. Our Director nomination process seeks persons with the initiative, time, skills and experience to be effective contributors, particularly in light of the Company's challenges.

In 2006, our Board adopted a majority voting standard for uncontested Director elections. We believe this gives shareholders an even greater voice in our governance. To be elected under this standard, Director nominees must receive more votes "for" than "against" their election.

Our Corporate Governance Principles address other matters relating to Board operations that are fundamental to shareholder interests. Directors must, for example, limit outside activities and abide by a specific code of conduct so that we can be confident about their commitment. To underscore that commitment and alignment with shareholders, Directors receive stock-based compensation and must own a specified level of McDonald's common stock. Since early 2004, our Board has also been led by an independent Chairman, Andrew McKenna. He and our other independent Directors meet regularly without management present to evaluate the Company's results, plans and challenges, as well as management's performance and the strength and development of our leadership bench. In 2006, the full Board met nine times. In addition, our independent Directors met in executive session nine times. Directors are expected to attend the Company's Annual Meeting of Shareholders, and all or substantially all Board meetings and meetings of the Committees of the Board on which they serve. In 2006, all of the Directors attended the Annual Meeting of Shareholders.

Board oversight is also effected through six standing committees. They are the Audit, Compensation, Governance, Corporate Responsibility, Finance and Executive Committees. Each of them operates under a written charter to promote clarity in their responsibilities and accountability among their members. These Committees work in a coordinated way to address recurring matters and respond to unanticipated events.

The Audit Committee oversees financial reporting matters and is responsible for selecting McDonald's independent auditors. The Audit Committee is critical in setting the right "tone at the top" and in that role reviews communications we receive about accounting or control matters and receives regular reports about the Company's ethics and compliance programs. The Committee also reviews related person transactions and makes recommendations to the Board about those matters and McDonald's major risk exposures. Its report on activities in 2006 begins on page 36 of this Proxy Statement.

The Compensation Committee reviews compensation levels for our officers worldwide, but has special responsibility for establishing goals and compensation levels for our Chief Executive Officer and other key executives. As recommended by shareholders in 2006, the Committee approved a new policy to limit future severance agreements with our executives. This year, we are also providing more detail about executive compensation, as required by SEC rules, and the Compensation Committee has special oversight responsibility for this disclosure. The Committee's report is set forth on page 14 of this Proxy Statement and is followed by management's Compensation Discussion and Analysis and related information.

The Governance Committee monitors our Board structure and operations. Among its most important functions are the identification, evaluation and recruitment of Director candidates, whether they are suggested by Directors, management or shareholders. The Committee makes a recommendation to the Board with respect to all Director nominees, including those you will vote on this year. In addition, under our new majority voting standard for uncontested Director elections, if an incumbent Director fails to be elected, the Governance Committee is responsible for making a recommendation to the Board about whether to accept the Director's resignation.

While not mandated by law, our other Board Committees figure prominently in our vision of corporate governance, which includes responsible corporate citizenship. Our Corporate Responsibility Committee, established in 2000, is charged with oversight of our approach to many social, health and environmental issues that confront our industry. These issues are important to our customers and to the McDonald's System, which includes franchisees and suppliers as well as the Company, its subsidiaries and joint ventures, and we acknowledge the benefits of dialogue about them.

To ensure that McDonald's significant financial policies and plans, such as its dividend policy and share repurchase program, are considered in appropriate detail in light of its overall strategy and performance, we established a fully independent Finance Committee charged with review of these and similar matters that are beyond the scope of the Audit Committee's responsibilities.

McDonald's is proud of its governance structure, but mindful that governance is a journey, not a destination. We refine our practices continuously to promote an effective collaboration of management and our Board that yields value for our shareholders. We welcome shareholder communications about our practices, which can be sent as described on page 6 of this Proxy Statement. Good governance is critical to fulfilling our obligations to shareholders—McDonald's will continue to strive to be a leader in adopting sound practices for the oversight of our business.

Director independence

Our Corporate Governance Principles require that all Directors except the Chief Executive Officer be independent. The Board is responsible for determining the independence of our Directors, and the Board has adopted Standards on Director Independence for these purposes, which are attached as Appendix A to this

Proxy Statement. The Board considers relationships involving Directors and their immediate family members that may implicate any of these Standards or other applicable law or the listing standards of the NYSE and relies on information derived from Company records, questionnaires completed by Directors and inquiries of other relevant parties.

The relationships reviewed by the Board as part of its most recent independence determination consisted of commercial relationships with companies:

- at which Board members then served as officers (including Mattel, Inc., Inter-Con Security Systems, Inc. and The Hershey Company);
- at which Board members then served as outside Directors (including Aon Corporation, Bank of America Corporation, Hewitt Associates, Inc., Jones Lang LaSalle Incorporated, Tribune Company and Wells Fargo & Company); and
- in which Board members or their immediate family members then held an aggregate 10% or more direct or indirect interest (Prairie Packaging, Inc. and Schwarz Paper Company).

The relationships with the companies noted above involved McDonald's purchase of products and services in the ordinary course of business that were made on arm's-length terms in amounts and under other circumstances that did not affect the relevant Directors' independence under the Board's Standards on Director Independence or under applicable law and listing standards.

The Board also reviewed donations made by the Company to not-for-profit organizations, including educational and arts-related organizations, with which Board members or their immediate family members were affiliated by membership or service as directors or trustees.

Based on its review of the above relationships, the Board determined that none of its non-management Directors has a material relationship with the Company and that all of them are independent within the meaning of the Board's Standards on Director Independence, as well as applicable law and listing standards. The non-management Directors are Hall Adams, Jr., Edward A. Brennan, Robert A. Eckert, Enrique Hernandez, Jr., Jeanne P. Jackson, Richard H. Lenny, Walter E. Massey, Andrew J. McKenna, Cary D. McMillan, Sheila A. Penrose, John W. Rogers, Jr. and Roger W. Stone. Anne-Marie Slaughter, who served as a Director until March 31, 2006, was independent during the time she served.

Financial experts, Audit Committee independence and financial literacy

The Board of Directors determined that Enrique Hernandez, Jr., Cary D. McMillan and Roger W. Stone qualify as "audit committee financial experts" and that each member of the Audit Committee is independent and financially literate, all within the meaning of applicable rules of the SEC and the listing standards of the NYSE.

Board Committees

Our Corporate Governance Principles provide for six standing committees: Audit, Compensation, Governance, Corporate Responsibility, Finance and Executive. Charters for each of the committees are available on the Company's website at www.governance.mcdonalds.com.

The **Audit Committee** appoints the Company's independent auditors and evaluates their independence and performance. The Audit Committee reviews with the internal auditors and the independent auditors the overall scope and results of their respective audits, the internal accounting and financial controls, and the steps management has taken to monitor and control the Company's major risk exposures. The Audit Committee also reviews the Company's material financial disclosures and pre-approves all audit and permitted non-audit services. In addition, the Audit Committee annually reviews the adequacy and appropriateness of the Company's compliance programs including the Company's disclosure controls and procedures. Members of the Committee are Directors Hernandez (Chairperson), Adams, Massey, McMillan, Penrose and Stone. All members of the Audit Committee are independent within the meaning of the listing standards of the NYSE. In 2006, the Audit Committee met ten times, including meetings to review the Company's annual and quarterly financial reports prior to filing with the SEC.

The Audit Committee Report, a discussion of the Policy For Pre-Approval of Audit and Permitted Non-Audit Services and a summary of Auditor Fees and Services can be found on pages 36 and 37 of this Proxy Statement.

The **Compensation Committee** evaluates the performance of the Company's Chief Executive Officer and approves his compensation in consultation with the non-management Directors. Based on recommendations from management, the Committee also reviews and approves senior management's compensation and approves compensation guidelines for all other officers of the Company. The Committee administers the Company's incentive and equity compensation plans and, in consultation with senior management, reviews and approves compensation policies. Members of the Committee are Directors Brennan (Chairperson), Eckert, Jackson, Lenny and Rogers. All members of the Compensation Committee are independent within the meaning of the listing standards of the NYSE. In 2006, the Compensation Committee met eight times.

The Compensation Committee Report can be found on page 14 of this Proxy Statement.

The **Governance Committee** sets criteria for Board membership; searches for and screens candidates to fill Board vacancies; recommends appropriate candidates for election each year and, in this regard, evaluates individual Director performance; assesses overall Board performance; considers Board composition and size; recommends to the Board the compensation paid to non-management Directors and evaluates the Company's corporate governance process. The Committee also considers and makes recommendations to the Board regarding shareholder proposals for inclusion in the Company's annual proxy statement. Members of the Committee are Directors McKenna (Chairperson), Brennan, Eckert, Hernandez and Stone. All members of the Governance Committee are independent within the meaning of the listing standards of the NYSE. In 2006, the Governance Committee met nine times.

The **Corporate Responsibility Committee** acts in an advisory capacity to the Company's management with respect to policies and strategies that affect the Company's role as a socially responsible organization, including issues pertaining to health

and safety, the environment, employee opportunities, consumers and the communities in which the Company does business. Members of the Committee are Directors Massey (Chairperson), Adams, Penrose and Rogers. In 2006, the Corporate Responsibility Committee met three times.

The **Finance Committee** has principal oversight responsibility with respect to certain material financial matters that are outside the purview of the Audit Committee, including the Company's treasury activities as well as acquisitions and divestitures that are significant to the Company's business. This Committee annually reviews the Company's worldwide insurance program, banking and trading arrangements, and policies with respect to dividends and share repurchase. Members of the Committee are Directors Jackson (Chairperson), Lenny, McKenna, McMillan and Stone. In 2006, the Finance Committee met five times.

The **Executive Committee** may exercise most Board powers during the period between Board meetings. Members of this Committee are Directors Skinner (Chairperson), Brennan, Hernandez and McKenna. In 2006, the Executive Committee met twice.

Director compensation

Under McDonald's Corporate Governance Principles, the Governance Committee recommends to the Board the form and amount of compensation for non-management Directors. Only non-management Directors are paid for their service on the Board.

The following table summarizes the compensation earned by the non-management Directors in 2006:

Name (a)	*Fees earned or paid in cash ($)(1)(2) (b)*	*Stock awards ($)(3)(4) (c)*	*Option awards ($)(5)(6) (d)*	*Total ($) (h)*
Hall Adams, Jr.	$ 84,000	$ 60,000	$20,123	$164,123
Edward A. Brennan	109,000	60,000	22,421	191,421
Robert A. Eckert	88,000	60,000	25,150	173,150
Enrique Hernandez, Jr.	111,000	60,000	20,123	191,123
Jeanne P. Jackson	90,000	60,000	20,123	170,123
Richard H. Lenny	85,000	60,000	–	145,000
Walter E. Massey	94,000	60,000	20,123	174,123
Andrew J. McKenna (7)	106,000	461,467	20,123	587,590
Cary D. McMillan	84,000	60,000	25,150	169,150
Sheila A. Penrose	48,934	36,329	–	85,263
John W. Rogers, Jr.	82,000	60,000	25,150	167,150
Anne-Marie Slaughter	18,000	14,795	53,617	86,412
Roger W. Stone	96,000	60,000	20,123	176,123

(1) Non-management Directors who served throughout 2006 earned: an annual retainer of $60,000; a $1,000 fee for each Board meeting attended; a $1,000 fee for each Committee meeting attended; and a $1,000 fee for each executive session not held in conjunction with a Board meeting. In addition, in 2006, the Chairperson of each of the Audit, Compensation and Governance Committees (Directors Hernandez, Brennan and McKenna, respectively) received an annual retainer fee of $20,000 and the Chairperson of each of the Corporate Responsibility and Finance Committees (Directors Massey and Jackson, respectively) received an annual retainer fee of $10,000 for service in these capacities. Director Penrose was elected to the Board on May 25, 2006 and Director Slaughter resigned from the Board on March 31, 2006. The cash fees earned by Directors Penrose and Slaughter in 2006 reflect their service in the portion of the year during which each of them served on the Board. The Governance Committee recommended and the Board of Directors approved the following compensation for non-management Directors effective January 1, 2007: annual cash retainer, $90,000; annual stock equivalent benefit, $90,000; Board meeting fee, $2,000; and Committee meeting fee, $1,500. Reimbursement for physical examinations has been eliminated.

The Company reimburses non-management Directors for expenses incurred in connection with attending Board, Committee and shareholder meetings as well as attending McDonald's business meetings at management's invitation. On limited occasions, the Company may determine that for business reasons it is appropriate for non-management Directors to be accompanied by their spouses at these meetings or at other events related to their service on the Board. In these circumstances, the Company also reimburses the spouses' travel expenses. In addition, in accordance with our Corporate Governance Principles, the Company reimburses reasonable expenses related to continuing education for our Directors.

(2) Non-management Directors may elect to defer all or a portion of their retainer and fees in the form of common stock equivalent units under the Company's Directors' Deferred Compensation Plan. Such deferrals, as well as the stock awards described in note 3 below, are credited to an account that is periodically adjusted to reflect the gains, losses and dividends associated with a notional investment in McDonald's common stock. The number of common stock equivalent units credited to a non-management Director's account is based on a per-share price equal to the closing price of McDonald's stock on the NYSE on the date the credit is made. Amounts credited to the non-management Directors' accounts are paid in cash, in a single lump sum after the non-management Director retires from the Board or dies. If the non-management Director has made a valid prior written election in accordance with the terms of the plan, all or a portion of the amount in the non-management Director's account may be paid in equal annual installments over a period of up to 15 years beginning after retirement from the Board.

(3) Represents the expense to the Company in 2006, as reported in our financial statements pursuant to Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (FAS No. 123(R)), of (i) common stock equivalent units granted under the Directors' Deferred Compensation Plan on December 31, 2006 to each non-management Director who was serving at the end of the year; and (ii) in the case of Director McKenna, restricted stock units, including a special grant of 15,000 restricted stock units on May 25, 2006 awarded in recognition of Director McKenna's service as non-executive Chairman of the Board, as described in note 7 below. Directors Penrose and Slaughter received pro rata credits to their accounts under the Directors' Deferred Compensation Plan on December 31, 2006, reflecting the portion of the year during which each of them served.

(4) The aggregate number of outstanding stock awards held by each of the non-management Directors as of December 31, 2006 is set forth in the table below. Stock awards include common stock equivalent units under the Directors' Deferred Compensation Plan and, in the case of Director McKenna, both common stock equivalent units and restricted stock units:

Name	*Aggregate number of outstanding stock awards as of December 31, 2006*
Hall Adams, Jr.	12,987
Edward A. Brennan	21,780
Robert A. Eckert	14,207
Enrique Hernandez, Jr.	35,550
Jeanne P. Jackson	24,323
Richard H. Lenny	4,960
Walter E. Massey	14,824
Andrew J. McKenna	98,355
Cary D. McMillan	13,994
Sheila A. Penrose	820
John W. Rogers, Jr.	13,744
Anne-Marie Slaughter	5,756
Roger W. Stone	71,124

(5) Represents the expense to the Company in 2006 under FAS 123(R), as reported in our financial statements, of stock options granted in prior years. The Company has not granted any stock options to non-management Directors since May 20, 2004. At the time of Director Slaughter's resignation, the Compensation Committee unanimously resolved to accelerate the vesting of her outstanding unvested stock options. This acceleration was reflected in the Company's expense in 2006 under FAS 123(R) in respect of Director Slaughter's stock options.

(6) The aggregate number of outstanding stock options held by each of the non-management Directors as of December 31, 2006 is set forth in the table below:

Name	*Aggregate number of outstanding stock options as of December 31, 2006*
Hall Adams, Jr.	28,000
Edward A. Brennan	20,000
Robert A. Eckert	15,000
Enrique Hernandez, Jr.	28,000
Jeanne P. Jackson	24,000
Richard H. Lenny	–
Walter E. Massey	28,000
Andrew J. McKenna	10,998
Cary D. McMillan	15,000
Sheila A. Penrose	–
John W. Rogers, Jr.	15,000
Anne-Marie Slaughter	10,000
Roger W. Stone	25,666

(7) The amount reported in the "Stock Awards" column for Director McKenna represents the sum of (i) the $60,000 credit to his account under the Directors' Deferred Compensation Plan on December 31, 2006; and (ii) the 2006 expense to the Company under FAS 123(R), as reported in our financial statements, of the special awards of 10,000 restricted stock units granted on May 10, 2005 and 15,000 restricted stock units granted on May 25, 2006, in recognition of his service as non-executive Chairman of the Board. These restricted stock units will vest on the later of one year from the date of grant or Director McKenna's retirement date. The 2006 expense under FAS 123(R) of Director McKenna's restricted stock units was $401,467.

Board and Committee evaluations
In accordance with our Corporate Governance Principles, the Governance Committee conducts annual evaluations of the Board of Directors. Individual Directors are evaluated periodically, but no less often than each time they are slated for re-election. In addition, each of the Audit, Compensation and Governance Committees annually conducts self-evaluations and each of the Corporate Responsibility and Finance Committees conducts such evaluations at least every two years. Results of these evaluations are discussed at Committee meetings and with the full Board.

Code of Conduct for the Board of Directors
Each year, Directors confirm that they have read the Code of Conduct for the Board of Directors and will comply with its standards.

Director selection process
The Company has a policy with regard to the consideration of Director candidates. Under the policy, the Governance Committee establishes criteria for Director nominees, screens candidates and recommends Director nominees who are approved by the full Board.

The Governance Committee considers candidates suggested by its members, other Directors, senior management and shareholders in anticipation of upcoming elections and actual or expected Board vacancies. The Committee may, at the Company's expense, retain search firms, consultants and other advisors to identify, screen and/or evaluate candidates.

All candidates, including those recommended by shareholders, are evaluated on the same basis in light of their credentials and the needs of the Board and the Company. Of particular importance are the candidate's integrity and judgment, professional achievements and experience relevant to the Company's business and strategic challenges, his or her potential contribution to the diversity and culture of the Board, and ability and willingness to devote sufficient time to Board duties. Candidates also are evaluated in light of Board policies, such as those relating to Director independence, tenure and service on other boards. Candidates with appropriate qualifications are interviewed in person, typically by the Chairman, the Chief Executive Officer, a majority of the members of the Governance Committee and other available Directors.

The Governance Committee also evaluates sitting Directors whose terms are nearing expiration and who are being considered for renomination in light of the above considerations and their past contributions to the Board. *Shareholders who wish to nominate Director candidates should follow the procedures described in the section on Consideration of Director nominations which can be found on page 6 of this Proxy Statement.*

Shareholder communications with the Board of Directors and non-management Directors

Interested persons wishing to communicate directly with the Board or the non-management Directors, individually or as a group, may do so by sending written communications addressed to them at McDonald's Corporation, P.O. Box 4837, Oak Brook, IL 60522-4837. Under the Board's policy for shareholder communications addressed to the Board, the Company's Secretary collects mail from the Directors' post office box, forwards correspondence directed to an individual Director to that Director, and screens correspondence directed to multiple Directors or the full Board in order to forward it to the most appropriate Committee Chairperson, the Chairman or the full Board. Communications to the Board, the non-management Directors or to any individual Director that relate to the Company's accounting, internal accounting controls or auditing matters are referred to the Chairperson of the Audit Committee.

Consideration of Director nominations

Shareholders can suggest Director candidates for consideration by writing to the Governance Committee, c/o The Secretary, McDonald's Corporation, McDonald's Plaza, Oak Brook, IL 60523-1928. Shareholders should provide the candidate's name, biographical data, qualifications and the candidate's written consent to being named as a nominee in the Company's Proxy Statement and to serve as a Director, if elected. To be eligible to be a nominee for election as a Director, the shareholder must also deliver statements to the Secretary indicating whether the candidate: (a) will deliver a resignation effective upon failure to receive the required vote for election; (b) is a party to any voting commitment that could limit the nominee's ability to carry out his/her fiduciary duties; (c) intends to refrain from entering into voting commitments; (d) is a party to any arrangements for compensation, reimbursement or indemnification in connection with service as a Director, or intends to enter into any such arrangement; and (e) intends to comply with the Company's publicly disclosed policies and guidelines.

The By-Law provisions relating to Director nominations are attached as Appendix B to this Proxy Statement. The Company's By-Laws are available on the Company's website at www.governance.mcdonalds.com.

For Director nominations to be properly brought before an annual meeting by a shareholder, timely notice must be given by the shareholder to the Company's Secretary. To be timely, the notice must be delivered to the Secretary at the above address not less than 90 days nor more than 120 days before the one-year anniversary of the preceding year's annual meeting. With respect to the 2008 Annual Shareholders' Meeting, notice will be timely if it is delivered between January 25, 2008 and February 22, 2008.

Shareholder proposals for inclusion in next year's Proxy Statement

To be considered for inclusion in next year's Proxy Statement, shareholder proposals must be received by the Company's Secretary no later than December 11, 2007. These proposals should be sent to the Secretary by fax at 1-630-623-0497 or by mail to The Secretary, McDonald's Corporation, McDonald's Plaza, Oak Brook, IL 60523-1928. This notice requirement is separate from and in addition to the SEC's requirements that a shareholder must meet in order to have a shareholder proposal included in the Company's Proxy Statement.

Other shareholder proposals for presentation at the 2008 Annual Shareholders' Meeting

For any proposal that is not submitted for inclusion in next year's Proxy Statement, but is instead sought to be presented directly from the floor of the 2008 Annual Shareholders' Meeting, the Company's By-Laws require that timely notice must be given to the Company's Secretary. To be timely, the notice must be delivered to the Secretary at the above address between January 25, 2008 and February 22, 2008. The By-Laws also provide that the proposal, as determined by the Chairman of the meeting, must be a proper subject for shareholder action under Delaware corporation law.

Proposal No. 1. ELECTION OF DIRECTORS

The Board is divided into three classes, each having three-year terms that expire in successive years.

Nominees

The nominees for Director are: Edward A. Brennan, Walter E. Massey, John W. Rogers, Jr., and Roger W. Stone.

The four nominees are standing for election as Directors at the 2007 Annual Shareholders' Meeting to hold office for three-year terms expiring in 2010.

Your shares will be voted according to your instructions. If you return your signed proxy card but do not provide voting instructions, your shares will be voted FOR the election of the four nominees named above. To be elected to the Board, the nominee for Director must receive more votes "for" than "against." Abstentions will have no effect on the outcome of an election. If a nominee is not reelected, he will remain in office until a successor is elected or until his earlier resignation or removal. Each of the nominees has agreed to tender an irrevocable resignation that will be effective (i) if the nominee is not reelected at the Annual Shareholders' Meeting and (ii) if the Board accepts such resignation following the meeting. The Governance Committee will act on an expedited basis to determine whether or not to accept the nominee's resignation and will submit such recommendation for prompt consideration by the Board. The Governance Committee and the Board may consider any factors they deem appropriate and relevant in deciding whether or not to accept a nominee's resignation.

The Board of Directors expects all four nominees named above to be available for election. If any of them should become unavailable to serve as a Director for any reason prior to the Annual Shareholders' Meeting, the Board may substitute another person as a nominee. In that case, your shares will be voted for that other person.

Biographical information for the Directors continuing in office and the four nominees follows.

The Board of Directors recommends that shareholders vote FOR all four nominees.


Adams


Brennan *Nominee*


Eckert


Hernandez


Jackson


Lenny


Massey *Nominee*


McKenna


McMillan


Penrose


Rogers *Nominee*


Skinner


Stone *Nominee*

Biographical information

Hall Adams, Jr. Mr. Adams was the Chief Executive Officer of Leo Burnett & Co., Inc., an advertising firm, from 1987 until his retirement in 1992. Mr. Adams, 73, has served as a Director of McDonald's since 1993 and is a member of the class of 2008.

Edward A. Brennan *Nominee.* Mr. Brennan is the retired Chairman, President and Chief Executive Officer of Sears, Roebuck and Co., a merchandising company. He retired from Sears in 1995. From April 2003 to May 2004, Mr. Brennan served as Executive Chairman of AMR Corporation, the parent company of American Airlines, and Executive Chairman of American Airlines, Inc., a scheduled passenger airline and scheduled air freight carrier. Mr. Brennan, 73, joined McDonald's Board in 2002 and is a nominee for the class of 2010. He also serves on the boards of AMR Corporation and Exelon Corporation.

Robert A. Eckert Mr. Eckert is Chairman and Chief Executive Officer of Mattel, Inc., a designer, manufacturer and marketer of family products, a post he has held since May 2000. He joined the Board of McDonald's in 2003 and is a member of the class of 2009. Mr. Eckert is 52 years old.

Enrique Hernandez, Jr. Mr. Hernandez has been Chairman and Chief Executive Officer of Inter-Con Security Systems, Inc., a provider of high-end security and facility support services to government, utilities and industrial customers, since 1986. He joined the Board in 1996 and is a member of the class of 2009. Mr. Hernandez, 51, also serves as the non-executive Chairman of the Board of Nordstrom, Inc. and as a director of Tribune Company and Wells Fargo & Company.

Jeanne P. Jackson Ms. Jackson is the General Partner of MSP Capital, a consulting and investment firm she founded in 2003. Ms. Jackson was Chief Executive Officer of Walmart.com from March 2000 to January 2002. Ms. Jackson, 55, joined McDonald's Board in 1999 and is a member of the class of 2009. She also serves on the boards of NIKE, Inc. and Nordstrom, Inc.

Richard H. Lenny Mr. Lenny has been Chairman, President and Chief Executive Officer of The Hershey Company, a manufacturer, distributor and marketer of chocolate and non-chocolate candy, snacks and candy-related grocery products, since January 2002. From March 2001 to December 2001, he was President and Chief Executive Officer of The Hershey Company. From January 2001 until March 2001, he was Group Vice President of Kraft Foods, Inc. and President of its Nabisco Biscuit and Snack business. Mr. Lenny, 55, joined McDonald's Board in 2005 and is a member of the class of 2008.

Walter E. Massey *Nominee.* Dr. Massey is President of Morehouse College, a post to which he was named in 1995, and expects to retire in June 2007. He also serves as a director of Bank of America Corporation and BP p.l.c. Dr. Massey, 69, joined McDonald's Board in 1998 and is a nominee for the class of 2010.

Andrew J. McKenna Mr. McKenna has been the non-executive Chairman of the Board since 2004 and is also the Chairman of Schwarz Paper Company, a printer, converter, producer and distributor of packaging and promotional materials. Mr. McKenna, 77, joined McDonald's Board in 1991 and is a member of the class of 2009. He is also a director of Aon Corporation and Skyline Corporation.

Cary D. McMillan Mr. McMillan has been Chief Executive Officer of True Partners Consulting, LLC, a professional services firm providing tax and other financial services, since December 2005. From October 2000 to May 2004, he was the Chief Executive Officer of Sara Lee Branded Apparel, and Executive Vice President, from January 2000 to May 2004, of Sara Lee Corporation, a branded consumer packaged goods company. Mr. McMillan, 49, joined McDonald's Board in 2003 and serves in the class of 2008. He also serves as a director of Hewitt Associates, Inc.

Sheila A. Penrose Ms. Penrose is President of The Penrose Group, a provider of strategic advisory services on financial and organizational strategies. She is also the non-executive Chairman of the Board of Jones Lang LaSalle Incorporated, a real estate services and money management firm, since her election to that post in January 2005. She has served on Jones Lang LaSalle's Board since 2002. Ms. Penrose also serves as Executive Advisor to the Boston Consulting Group and as a director of eFunds Corporation (until May 2007). Ms. Penrose, 61, joined McDonald's Board in 2006 and serves in the class of 2008.

John W. Rogers, Jr. *Nominee.* Mr. Rogers is the Chairman and Chief Executive Officer of Ariel Capital Management, LLC, a privately held institutional money management firm which he founded in 1983. Mr. Rogers, 49, joined the McDonald's Board in 2003 and is a nominee for the class of 2010. Mr. Rogers also serves as a director of Aon Corporation and Exelon Corporation, and as a trustee of Ariel Investment Trust.

James A. Skinner Mr. Skinner is Vice Chairman and Chief Executive Officer, a post to which he was elected in November 2004; he has also served as a Director since that time. He served as Vice Chairman from January 2003 to November 2004 and as President and Chief Operating Officer of the McDonald's Worldwide Restaurant Group from January 2002 to December 2002. Prior to that time, he served as President and Chief Operating Officer of McDonald's Europe/Asia/Pacific from June 2001 to January 2002. Mr. Skinner, 62, has been with the Company for 35 years and serves in the class of 2008. He also serves on the boards of Illinois Tool Works Inc. and Walgreen Co.

Roger W. Stone *Nominee.* Mr. Stone has been Chairman and Chief Executive Officer of KapStone Paper and Packaging Corporation, formerly Stone Arcade Acquisition Corporation, since April 2005. Mr. Stone was manager of Stone-Kaplan Investments, LLC from July 2004 to January 2007 and Chairman and Chief Executive Officer of Stone Arcade Acquisition Corporation. He was Chairman and Chief Executive Officer of Box USA Group, Inc., corrugated box manufacturer, from 2000 to 2004. Mr. Stone, 72, joined McDonald's Board in 1989 and is a nominee for the class of 2010.

Proposal No. 2. APPROVAL OF THE APPOINTMENT OF AN INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM TO SERVE AS INDEPENDENT AUDITORS FOR 2007

The Audit Committee is responsible for the appointment of the independent auditors engaged by the Company. The Audit Committee has appointed Ernst & Young LLP as independent auditors for 2007. The Board is asking shareholders to approve this appointment. Ernst & Young LLP audited the Company's financial statements and internal control over financial reporting for 2006. A representative of that firm will be present at the Annual Shareholders' Meeting and will have an opportunity to make a statement and answer questions.

See pages 36 through 37 of this Proxy Statement for additional information regarding the independent auditors, including a description of the Audit Committee's Policy for Pre-Approval of Audit and Permitted Non-Audit Services and a summary of Auditor Fees and Services.

The Board of Directors recommends that shareholders vote FOR the appointment of Ernst & Young LLP, an independent registered public accounting firm, to serve as independent auditors for 2007.

Proposal No. 3. SHAREHOLDER PROPOSAL RELATING TO LABELING OF GENETICALLY MODIFIED PRODUCTS

The Camilla Madden Charitable Trust, Bon Secours Health System, Inc., the Congregation of the Sisters of St. Joseph of Springfield, the Sinsinawa Dominicans, The Sisters of St. Francis of Philadelphia, the Sisters of Charity of the Incarnate Word, the Dominican Sisters of Springfield, Illinois and Providence Trust advised the Company that they intend to present the following shareholder proposal at the Annual Shareholders' Meeting. The addresses of the proponents and the number of shares they own are available upon request by calling 1-630-623-2553 or by sending a request to McDonald's Corporation, Investor Relations Service Center, Department 300, McDonald's Plaza, Oak Brook, IL 60523-1928.

Shareholder proposal

Resolved: Shareholders request that the Board of Directors adopt a policy to identify and label all food products manufactured or sold by the company under the company's brand names or private labels that may contain genetically engineered (GE) ingredients or products of animal cloning.

Supporting statement

- The right to know is a fundamental principle of democratic societies and market economics.
- The Food and Drug Administration is expected to make a decision regarding the sale of milk and meat from cloned animals by the end of 2006. (WA Post 10/17/06)
- McDonald's Europe has asked its suppliers to source non-GM, non-Amazon feed for poultry. (*The Guardian* 7/24/06)
- Labeling is an indicator of due diligence of product ingredients.
- The global alliance Action by Churches Together took a stand supporting the "right to know" whether there are genetically engineered ingredients in the food purchased or in the seeds sown. (ReliefWeb 6/28/06)
- 132 countries, parties to the Cartagena Protocol, have agreed to documentation requirements for the export and import of genetically engineered organisms. (*Financial Times* 3/29/06)
- As of May 19, 2005, Alaska law requires that genetically engineered salmon be labeled as such.

Indicators that genetically engineered organisms can be difficult to control, and may be harmful to financial markets as well as to humans, animals, or the environment include:

- Illegal unapproved Liberty Link long-grain rice, planted in field trials no later than 2001, was discovered to have contaminated U.S. rice supplies. (Reuters 8/28/06) This prompted Japan to suspend imports of U.S. Rice, and the European Commission to require that rice imports be certified as free of unauthorized grain, greatly disrupting the U.S. rice export market.
- Between 2001-2004, approximately 15,000 hectares (150 square kilometers) in four U.S. states were planted with unapproved Bt10 corn. (New Scientist 3/23/2005)
- December 2006, U.N. Secretary General Annan cautioned that the international community lacks safeguards to prevent bioterrorism and accidental harm from biotechnology advances.
- The report *Safety of Genetically Engineered Foods: Approaches to Assessing Unintended Health Effects (National Academy of Sciences* 7/2004) states: ..."there remains sizable gaps in our ability to identify compositional changes that result from genetic modification of organisms intended for food..." (p. 15)
- The FDA determined (2/2003) that 386 pigs involved in bioengineering studies were possibly not properly disposed of, and may have entered the food supply.
- Federal District Court ruled (8/10/06) that USDA's permitting of drug-producing genetically engineered crops in Hawaii violated the Endangered Species Act and the National Environmental Policy Act.
- Genetically engineered creeping bentgrass, not yet approved commercially, escaped into wild as far as three miles from the test plot. (8/9/06)
- Five major U.S. agricultural weeds have developed resistance to glyphosate, the herbicide used with genetically engineered Roundup Resistant crops. Addressing the problem includes use of additional herbicides.
- Research (*Environmental Health Perspectives* 6/2005) has shown that Roundup, increasingly needed on Roundup Ready crops, is toxic to human placental cells at concentrations lower than agricultural use.

The Board's recommendation

McDonald's is firmly committed to serving safe, quality products. We monitor and comply with all laws and regulations applicable to the identification and labeling of products, including products containing genetically modified ingredients. For the reasons described below, however, we believe that the type of labeling requested by the shareholder proponents is impractical, misleading and unnecessary.

McDonald's does not plant or raise crops or raise livestock for use in its products. Instead, ingredients for products served in McDonald's restaurants are sourced from industry suppliers. This means that accurate identification and labeling of genetically modified ingredients would require testing of our sourced ingredients. At this time, however, neither the United States Food and Drug Administration nor any other government agency in the United States has established a standardized protocol for testing for the presence of ingredients that have been genetically modified. In addition, the U.S. FDA has not completed its final assessment on animal cloning, so it is premature to draw any conclusions in this regard. Without a government sponsored protocol, it would be impractical for McDonald's to attempt to implement a testing program for the purpose of labeling in the manner requested by the proponents.

In the absence of such government regulation and standardization, implementation of a labeling program as requested by the proponents could mislead consumers. Of concern is the potential for consumers to mistakenly construe such a label as a warning that genetically modified ingredients are unsafe. To the contrary, it is our understanding that there is no evidence that modified foods are unsafe or otherwise distinguishable from non-modified foods in terms of nutritional composition.

We believe that relevant government agencies with the appropriate scientific expertise, rather than McDonald's or its shareholders, are the proper entities to make judgments about disclosure of food ingredients. In establishing labeling requirements, government agencies have not determined that it would protect the health and safety of the public and the environment to require companies to identify and label products that may contain genetically modified ingredients, as the shareholder proponents ask us to do. We believe the current governmental labeling regulations ensure consumer safety and awareness of food ingredients, and we intend to continue to comply with them.

McDonald's has long championed consumer access to nutrition information as vital to assisting consumers in making informed choices that suit their dietary needs. In 2006, McDonald's undertook a worldwide initiative to add nutritional labeling to the packaging of many of our menu items. We expect to continue and expand this initiative in 2007. In this way, we hope to inform consumers about information concerning those elements of nutrition that experts agree are most relevant to understanding a product's nutritional value.

We note that this proposal is substantially similar to proposals received by McDonald's and voted on by our shareholders in each of the past two years. At the 2006 Annual Shareholder's Meeting, a similar proposal received the support of fewer than 6% of votes cast by our shareholders.

Therefore, your Board of Directors recommends that you vote AGAINST this shareholder proposal.

Proposal No. 4. SHAREHOLDER PROPOSAL RELATING TO LABOR STANDARDS

The AFL-CIO Reserve Fund, the Adrian Dominican Sisters and the Sisters of Charity of the Blessed Virgin Mary have advised the Company that they intend to present the following shareholder proposal at the Annual Shareholders' Meeting. The respective addresses and share ownership information for each of the proponents will be furnished to any shareholder by calling 1-630-623-2553 or by sending a request to McDonald's Corporation, Investor Relations Service Center, Department 300, McDonald's Plaza, Oak Brook, IL 60523-1928.

Shareholder proposal

McDonald's Corporation—Human Rights Standards

Whereas, we believe McDonald's purchases significant amounts of produce, such as tomatoes, for its sandwiches and salads, and

Whereas, the United States Department of Justice has successfully prosecuted several cases of modern-day slavery in the U.S. agricultural industry since 1996, involving over 1,000 workers, (see, for example, US v. Ramos; US v. Lee; US v. Flores; US v. Cuello; US v. Tecum) and there is increasing public awareness and media coverage of the sweatshop conditions and abuses that many agricultural workers face, and

Whereas, we believe violations of human rights in McDonald's supply chain can lead to negative publicity, public protests, and a loss of consumer confidence that can have a negative impact on shareholder value, and

Whereas, McDonald's current Code of Conduct for suppliers is based heavily on compliance with the law ("McDonald's Code of Conduct for Suppliers, pages 2,3,4), and U.S. agricultural workers are excluded from many labor laws that apply to other U.S. workers (for example, National Labor Relations Act of 1935, 29 U.S.C. § 151 et seq.; portions of the Fair Labor Standards Act of 1938, 29 U.S.C. § 201, 213), and

Whereas, other multi-national corporations, including other large produce purchasers, have implemented enforceable and meaningful codes of conduct for their supply chains based on international human rights standards, such as the International Labor Organization's ("ILO") standards, and

Whereas, in our opinion as shareholders, enforceable human rights codes of conduct based on the ILO's Declaration on Fundamental Principles and Rights at Work and other conventions and are essential if consumer and investor confidence in our company's commitment to human rights is to be maintained,

Therefore, be it resolved that the shareholders urge the Board of Directors to adopt, implement, and enforce a revised company-wide Code of Conduct, inclusive of suppliers and sub-contractors, based on the International Labor Organization's ("ILO") Declaration of Fundamental Principles and Rights at Work and the following other relevant ILO conventions:

- Employment shall be freely chosen. There shall be no use of forced labor, including bonded or voluntary prison labor (ILO Conventions 29 and 105);
- Workers are entitled to overtime pay when working more than 8 hours per day (ILO Convention 1);
- All workers have the right to form and join trade unions and to bargain collectively. (ILO Conventions 11, 87, 98, 110);
- Worker representatives shall not be the subject of discrimination and shall have access to all workplaces necessary to enable them to carry out their representation functions (ILO Convention 135).

The Board should also prepare a report at reasonable cost to shareholders and the public concerning the implementation and enforcement of this policy.

The Board's recommendation

Our Company has a well-respected and well-recognized record and reputation for business honesty and integrity, including sound employment practices worldwide. We are committed to the fair and ethical treatment of our employees, and only do business with suppliers who are committed to those same principles. As more fully discussed below, we have meaningful and enforceable employment policies that require high workplace standards for our employees. We also have a supplier code of conduct that requires suppliers to maintain similar high workplace standards for their employees. Therefore, while we appreciate the proponents' interest in labor standards generally, we have existing policies and practices already in place that substantially address the areas covered in the proposal, and more importantly, are tailored and appropriate for our business.

- *Policies relating to our employees*

We believe that all of our employees deserve to be treated with dignity and respect. We are committed to complying with applicable laws, including all labor and employment laws, wherever we do business, as well as maintaining high standards of business conduct. We have long-standing policies relating to employee rights, working conditions and employment practices, including the McDonald's Standards of Business Conduct, which establish a foundation for the Company's core business values. The Standards of Business Conduct address areas of the proposal with respect to our employees, including diversity, fair compensation, equal employment opportunity, non-discrimination and non-harassment, as well as prohibitions on child and forced labor. These Standards as well as other of our employment policies and practices are posted on the Company's website at www.mcdonalds.com.

- *Policies relating to employees of McDonald's suppliers*

The employees of McDonald's suppliers and their subcontractors are not our employees. They are exclusively employees of the suppliers and the subcontractors. We strongly believe, however, that suppliers who are approved to do business with McDonald's should share our commitment to comply with the law wherever they do business, to respect employee rights and to maintain high workplace standards. Accordingly, we have implemented a McDonald's Code of Conduct for Suppliers. The Code of Conduct for Suppliers addresses areas of the proposal as they relate to the employees of McDonald's suppliers and their subcontractors, including matters relating to compensation, non-discrimination and non-harassment, and prohibitions on child and forced labor. In addition, the Company has protocols for appropriate inspections and monitoring of supplier facilities. Compliance with this Code is a standard contractual requirement for McDonald's product suppliers and is the responsibility of each individual supplier. The Code of Conduct for Suppliers is posted on the Company's website at www.mcdonalds.com.

- *Oversight by the Board of Directors*

The Audit Committee of the Board of Directors receives regular reports regarding compliance with the Standards of Business Conduct. The Audit Committee also receives periodic updates regarding the Company's material legal affairs and compliance with applicable laws, including labor and employment laws worldwide. The Board's Corporate Responsibility Committee advises our management with respect to policies and strategies that affect our role as a socially responsible organization, including issues pertaining to the health and safety of and opportunities for our employees. We believe this oversight provides effective enforcement control of these important policies and practices.

- *Published reports*

The Company periodically publishes a Corporate Responsibility Report that provides information about many aspects of our business, including our employment practices and our relationships with suppliers. The Corporate Responsibility Report and other information relating to these issues can be found on the Company's website at www.mcdonalds.com. These established disclosure mechanisms substantially address the reporting concerns raised in the proposal.

For all of the reasons described above, we believe that the proponents' proposal to implement a single code of conduct for the Company, its suppliers and subcontractors is unnecessary. Further, our policies and practices, which are tailored to our business structure, operations and the particular issues we face, are preferable to the "one-size-fits-all" approach favored by the proponents. We are confident that we will be best able to continue to prove our strong commitment to business ethics and high workplace standards by continuing to apply and enforce our existing business policies and employment practices, rather than by implementing this shareholder proposal.

Therefore, your Board of Directors recommends that you vote AGAINST this shareholder proposal.

Stock ownership guidelines

The Company imposes minimum stock ownership guidelines for Directors and senior officers.

Each Director is expected to acquire, within five years after becoming a Director, common stock or common stock equivalent units equal in value to the lesser of five times the annual retainer or 10,000 shares (of which 1,000 shares should be acquired within the first year) and to maintain that level of investment throughout his or her term.

Senior officers are expected to acquire the lesser of the minimum share ownership requirements or value of shares as a multiple of base salary listed below within five years of becoming a senior officer, and to hold those shares during his or her term of office:

Level/band	*Minimum share ownership requirements*	*Value of shares as a multiple of base salary*
Chief Executive Officer	240,000	5 x
President and Chief Operating Officer	180,000	5 x
President, U.S., Europe, APMEA/ Senior Executive Management	85,000	4 x
Executive Management	50,000	4 x
Senior Leadership *(1)*	25,000	3 x

(1) Generally, "senior leadership" includes all senior vice presidents, however, members of senior leadership who are not on the U.S. payroll have minimum share ownership requirements equal to the lesser of (i) 15,000 shares or (ii) a value of shares that equals two times base salary.

We review compliance with these requirements annually. Failure to meet these requirements may result in a reduction in future long-term incentive grants and/or payment of future annual and/or long-term incentive payouts in the form of common stock.

Security ownership of certain beneficial owners

The following table shows all beneficial owners of more than five percent of the Company's common stock outstanding as of December 31, 2006:

Name and address of beneficial owner	*Amount and nature of beneficial ownership*	*Percent of class (3)*
AXA *(1)* 25, avenue Matignon 75008 Paris, France	70,644,490 common shares	5.7%
Dodge & Cox *(2)* 555 California Street, 40th floor San Francisco, CA 94104	67,966,771 common shares	5.5%

(1) Reflects shares beneficially owned by AXA as of December 31, 2006, according to a statement on Schedule 13G filed with the SEC, which indicates that the company, a parent holding company and certain of its subsidiaries as named below are filing the Schedule 13G jointly. As reflected in the Schedule 13G, AXA Investment Managers Paris (France) has sole voting and investment power with respect to 181,672 shares; AXA Investment Managers Den Haag has shared voting and sole investment power with respect to 4,283 shares; AXA Konzern AG (Germany) has sole voting and investment power with respect to 45,716 shares; AXA Rosenberg Investment Management LLC has sole voting power with respect to 4,403,247 shares and sole investment power with respect to 5,984,966 shares; Winterthur has sole voting and sole investment power with respect to 89,950 shares; AllianceBernstein L.P. has sole voting power with respect to 37,292,477 shares, shared voting power with respect to 8,810,116 shares, sole investment power with respect to 64,077,262 shares, and shared investment power with respect to 30,258 shares; and AXA Equitable Life Insurance Company has sole voting power with respect to 136,100 shares and sole investment power with respect to 230,383 shares. The Schedule 13G also indicates that a majority of the shares reported are held by unaffiliated third-party client accounts managed by Alliance Capital Management L.P., a majority owned subsidiary of AXA Financial, Inc., as investment advisor. The Schedule 13G also certifies that the securities were acquired in the ordinary course and not with the purpose nor with the effect of changing or influencing the control of McDonald's.

(2) Reflects shares beneficially owned by Dodge & Cox as of December 31, 2006, according to a statement on Schedule 13G filed with the SEC, which indicates that the company, an investment adviser, has sole voting power with respect to 63,592,998 shares, shared voting power with respect to 680,300 shares and sole dispositive power with respect to 67,966,771 shares. The Schedule 13G also indicates that the securities reported are beneficially owned by clients of Dodge & Cox, and that those clients may include investment companies registered under the Investment Company Act and/or employee benefit plans, pension funds, endowment funds and other institutional clients. The Schedule 13G also certifies that the securities were acquired in the ordinary course and not with the purpose nor with the effect of changing or influencing the control of McDonald's.

(3) Based on the number of outstanding shares of common stock on December 31, 2006.

Security ownership of management

The following table shows the ownership of the common stock and common stock equivalent units for the named individuals and the group as of March 1, 2007. Directors and executive officers as a group owned (directly, indirectly and through benefit plans) less than 1.0% of the Company's common stock:

Name	*Common stock (1)(2)(3)(4)*	*Stock equivalents (5)*	*Total*
Hall Adams, Jr.	30,334	12,987	43,321
Ralph Alvarez	279,015	39,774	318,789
Edward A. Brennan	20,834	21,780	42,614
Robert A. Eckert	23,334	14,207	37,541
Timothy J. Fenton	317,729	9,240	326,969
Denis Hennequin	355,312	2,620	357,932
Enrique Hernandez, Jr.	35,442	35,550	70,992
Jeanne P. Jackson	24,584	24,323	48,907
Richard H. Lenny	2,000	4,960	6,960
Walter E. Massey	4,810	14,824	19,634
Andrew J. McKenna	51,853	63,355	115,208
Cary D. McMillan	26,334	13,994	40,328
Matthew H. Paull	364,941	12,928	377,869
Sheila A. Penrose	3,000	820	3,820
Michael J. Roberts	700,814	0	700,814
John W. Rogers, Jr.	88,434	13,744	102,178
James A. Skinner	1,194,124	34,765	1,228,889
Roger W. Stone	42,000	71,124	113,124
Directors and executive officers as a group (the Group)(25 persons)	4,904,758	438,837	5,343,595

(1) Beneficial ownership of shares that are owned by members of their immediate families directly or through trusts is disclaimed as follows: Directors McKenna, 640; and Rogers, 100.

(2) Includes unallocated shares held in the Company's Profit Sharing and Savings Plan as follows: Director Skinner, 11,406; Messrs. Fenton, 8,660; Paull, 1,479; and the Group, 36,203.

(3) Includes shares that could be purchased by exercise of stock options on or within 60 days after March 1, 2007, under the Company's option plans as follows: Directors Adams, 26,334; Brennan, 18,334; Eckert, 13,334; Hernandez, 26,334; Jackson, 22,334; McKenna, 9,332; McMillan, 13,334; Rogers, 13,334; Skinner, 992,297; and Stone, 24,000; Messrs. Alvarez, 279,007; Fenton, 260,034; Hennequin, 354,803; Paull, 357,732; and Roberts, 699,890; and the Group, 4,300,244.

(4) Directors and executive officers as a group have sole voting and investment power over shares of common stock listed above except as follows: (i) shared voting and investment powers for shares held by Directors Eckert, 10,000; Hernandez, 9,108; Jackson, 2,250; Lenny, 2,000; Roberts, 711; and Skinner, 2,168; and the Group, 63,048; and (ii) for the benefit of children, shares held by Mr. Roberts, 200; and the Group, 206.

(5) Includes common stock equivalent units credited under the Company's retirement plans and the Directors' Deferred Compensation Plan, which are payable in cash. In addition, for Mr. Hennequin, includes shares credited to his Plan Epargne Enterprise account.

COMPENSATION COMMITTEE REPORT

Dear Fellow Shareholders:

The Compensation Committee reviewed and discussed the Company's Compensation Discussion and Analysis with McDonald's management. Based on this review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement and the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Respectfully submitted,

The Compensation Committee
Edward A. Brennan, *Chairperson*
Robert A. Eckert
Jeanne P. Jackson
Richard H. Lenny
John W. Rogers, Jr.

COMPENSATION DISCUSSION AND ANALYSIS

McDonald's executive compensation program is designed to support our business strategy based on the long-term plan we adopted in 2003: the Plan to Win. The Plan to Win focuses on maximizing customer satisfaction and strengthening our financial position. To achieve those goals, the Plan to Win emphasizes operational excellence, leadership marketing, innovation and financial discipline with initiatives implemented around five drivers of exceptional customer experiences—people, products, place, price and promotion—which we refer to as the "five Ps." When we adopted the Plan to Win, we also redesigned our Company-wide compensation program, which we refer to as our global compensation program, to further our strategic objectives under the Plan to Win.

In determining the amount and mix of executive compensation, we seek to achieve the following principal objectives:

- To reward executives for supporting the five Ps and delivering profitable growth;
- To differentiate rewards based on the achievement of Company, geographic business unit and individual performance goals so as to ensure that executive compensation is reflective of performance;
- To achieve an equitable balance in the compensation levels of executives who have comparable levels of responsibility; and
- To set compensation levels that enable us to compete for talent in a highly competitive global market, balancing this goal with the other business priorities we consider in allocating the Company's resources.

As part of our realignment of executive compensation with the Plan to Win, we revised the mix of equity incentives we offer, moving a portion of long-term incentive compensation from stock options to cash-based incentives and adding regular awards of restricted stock units, or RSUs, which are subject to performance-based vesting conditions for executives and are a less dilutive alternative than options. The adjusted mix has reduced our run rate, which measures equity awards granted in the year as a percentage of outstanding shares. In 2006, our run rate was 0.63%, as compared to 0.73% in 2005 and 1.54% in 2004.

In the discussion that follows, references to our "staff employees" are to Company employees, including home office, divisional office and regional office employees. The term "officers" refers to a group of about 200 senior employees at the level of vice president and above. The term "senior management" refers to officers at the senior vice president level and above, or about 50 employees. The term "executives" means the 11 most senior executives of the Company. Finally, the term "named executive officers" refers to the six officers of the Company about whose compensation we provide detailed tabular and narrative information pursuant to SEC requirements. The named executive officers include James A. Skinner, our Chief Executive Officer or CEO; Matthew H. Paull, our Chief Financial Officer or CFO; and the three other most highly compensated executives of the Company at the end of 2006, who were Ralph Alvarez, Denis Hennequin and Timothy J. Fenton. Mr. Alvarez is President and Chief Operating Officer, or President/COO, of the Company. Mr. Hennequin is President of McDonald's Europe and is based in Europe. Mr. Fenton is President of Asia, Pacific, Middle East and Africa, or APMEA, and is based in Hong Kong. Our named executive officers also include Michael J. Roberts, who ceased to be President/COO in August 2006 and was succeeded in those positions by Mr. Alvarez.

We describe the key elements of our executive compensation program below, including an analysis of compensation earned by or paid to our named executive officers in 2006. This discussion should be read in conjunction with the other information about compensation earned by the named executive officers presented in this Proxy Statement.

Measuring performance

The main metrics we use to measure Company performance for determining payouts for our executives include our stock price; earnings per share or EPS; return on total assets; and Brand McDonald's operating income, which is our operating income from all Company-operated and franchised restaurants excluding those not operated under McDonald's brand name. With the exception of stock price and return on total assets, these metrics are expressed in constant currency to exclude the period-to-period effects of currency translation. Management reviews and analyzes business results in constant currencies and bases compensation decisions on these results because we believe results expressed in constant currency better reflect underlying business trends.

In evaluating the individual performance of our named executive officers when determining annual base salary, annual cash incentives and annual grants of equity-based compensation, we consider a number of qualitative factors which emphasize sustained levels of strong performance. The primary factor is results achieved (including in years prior to the year of the salary review). We also measure individual performance from various perspectives that include setting and achieving goals that are in line with McDonald's strategic focus. For example, our CEO's performance in 2006 was evaluated taking into account his three performance priorities: sustainable profitable growth; progress in our "balanced active lifestyles" initiatives; and talent management.

Compensation components and mix

• *Overview*

The total compensation package for our named executive officers consists of: (i) annual base salary; (ii) annual cash incentive compensation; (iii) long-term incentive compensation in the form of a mix of cash and equity-based awards; (iv) opportunities for tax-efficient retirement savings and Company contributions under our retirement plans; (v) perquisites; (vi) welfare benefits; and (vii) in the case of named executive officers based overseas, certain Company-paid housing and other expenses in connection with their overseas assignments. We strive to provide compensation opportunities that are competitive with comparable positions at other companies with which we compete for executive talent. As appropriate to further this objective, we review market compensation data and benchmark our executive compensation program against a group of comparator companies, which we refer to as our comparator group. We review our comparator group annually to ensure that it includes an appropriate mix of branded consumer products companies, as well as key McDonald's competitors and other global companies in the retail industry.

For compensation decisions affecting 2006 compensation, those companies were 3M Company, Altria Group, Inc., Best Buy Co., Inc., Burger King Holdings, Inc. (formerly Burger King), The Coca-Cola Company, The GAP, Inc., General Electric Company, General Mills, Inc., The Gillette Company, Johnson & Johnson, Kellogg Company, Nestlé (International), PepsiCo, Inc., The Procter & Gamble Company, Sara Lee Corporation, Sears Roebuck and Co., Starbucks Corporation, Target Corporation, The Home Depot, Inc., The Walt Disney Company, Unilever (United States), Walgreen Co., Wal-Mart Stores, Inc., Wendy's International, Inc. and Yum! Brands, Inc. Since this group was established, both Gillette and Sears were acquired by other companies. Decisions affecting 2006 compensation program guidelines were generally made in late 2005 before these acquisitions occurred. Where comparator group practices were relevant to decisions made thereafter, the decisions were based on a modified comparator group that reflected these acquisitions.

As a general policy, we target total direct compensation (that is, base salary, annual and long-term cash incentives and equity-based compensation) for our executives in the 55th to 60th percentile among companies in our comparator group. In setting compensation for each named executive officer, our executive vice president of human resources and the Compensation Committee also review the compensation of other members of senior management, focusing on the executives and in particular on the other named executive officers. These and other factors, such as the relative seniority of the named executive officer when promoted or hired into the Company's executive ranks, as well as succession and retention considerations, affect whether total pay for each of our executives falls within the benchmark range. As a result of the Company's superior performance during the periods taken into account in determining our named executive officers' 2006 compensation, total direct compensation for the named executive officers in 2006 was significantly above target levels.

In considering the implementation of McDonald's compensation objectives, the Compensation Committee annually reviews tally sheets summarizing our executives' total compensation, including direct compensation; cumulative benefits and savings under retirement plans and equity compensation programs; and perquisites and potential payments on termination of employment, whether on a change in control of McDonald's or otherwise.

The CEO's compensation is determined by the Compensation Committee in consultation with non-management members of the Board. Management provides relevant survey and other data to the Committee that it may consider for these purposes. For both the CEO and the President/COO, the executive vice president of human resources makes recommendations about cash incentive targets established in connection with our annual cash incentive plan, the McDonald's Target Incentive Plan or TIP, and under our long-term cash incentive plan, the McDonald's Cash Performance Unit Plan or CPUP. Otherwise, management generally does not make recommendations to the Compensation Committee regarding compensation elements with respect to the CEO. For the President/COO, the CEO is the only member of management who makes recommendations for consideration by the Committee in setting other compensation components, including annual base salary and equity incentive compensation.

For executives other than the CEO, total compensation packages are developed and recommended by the CEO or the President/COO, in consultation with our executive vice president of human resources and based on guidance received from the Chairperson of the Compensation Committee. The Compensation Committee determines whether to approve these recommendations, subject to any further modifications that it may deem appropriate.

As part of the process of determining executive compensation, where appropriate our executive vice president of human resources makes recommendations about the design and amount of compensation based on his review of relevant market data, business and individual achievement relative to performance targets, relative levels of compensation within the Company with a focus on the executives and in particular the named executive officers, succession considerations and other relevant factors.

Frederic W. Cook & Co., Inc. is the Compensation Committee's independent compensation consultant. In 2006, the Cook firm advised on specific matters, including the incentives awarded to Mr. Alvarez on his promotion as described below, as well as base salary increases and the equity grants for Messrs. Skinner, Roberts and Paull. During 2006, the Cook firm also provided executive compensation advice for the Compensation Committee as well as advice for the Governance Committee on the compensation of our directors (including our Chairman) and other matters. The Cook firm was not engaged by management to provide any services. In developing its recommendations for the Compensation Committee, management uses data provided by other major consultants, including Hewitt Associates LLC, which also provides significant benefit plan administration services to McDonald's. From time to time, data provided by these other consultants is provided to the Compensation Committee.

• *Fixed and variable compensation*
Our executive compensation program is structured so that, in general, no less than 70% of a named executive officer's total direct compensation is variable compensation and "at risk" for non-payment if McDonald's or the executive fails to meet performance targets. The proportion of an executive's direct compensation that is at risk increases with his or her level of responsibility. While reflecting our focus on rewarding performance, we believe that this mix provides for current income at levels sufficient in a competitive market to attract and retain executives with the experience and skills required to manage a business with the scope and complexity of McDonald's operations. In 2006, variable compensation for the named executive officers overall, including TIP, CPUP and equity-based compensation, was significantly above target, reflecting the Company's superior performance during the relevant performance period. Because our executives earned accumulated payouts for the three-year cycle under the CPUP in 2006, the proportion of performance-based compensation in 2006 was higher than it generally is in years in which no CPUP awards vest.

In February 2007, the Compensation Committee approved new long-term cash incentive plan targets for the 2007-2009 cycle. The named executive officers will not be entitled to any payout under the new CPUP until the end of the performance cycle on December 31, 2009, and there will be no CPUP payouts prior to vesting of the 2007-2009 awards because the three-year CPUP performance cycles do not overlap.

Elements of compensation

• *Annual base salary*
Base salary levels are set with a view to retaining and rewarding named executive officers based on their level of responsibility and individual contribution to McDonald's success. We generally establish salaries in our markets worldwide on an annual basis taking into account individual performance and competitive considerations, including local market conditions. We may adjust salary when an executive is promoted or assumes additional responsibilities or based on considerations of internal pay equity. As in the case of annual salary reviews, all of these interim decisions take into account individual performance and competitive considerations.

Although we review salary annually, we do not automatically increase base salary each year. When considering the appropriateness of salary increases, we consider many factors, including: (i) market and survey data provided primarily by Hewitt, but also by other consultants such as Mercer Human Resource Consulting and WorldatWork; (ii) internal pay equity considerations; and (iii) the effect of salary increases on the Company's selling, general & administrative expenses.

In general, we target annual base salaries for executives at the 50th percentile among the companies in our comparator group. Annual base salary increases in 2006 over the previous year's levels for the named executive officers were as follows: 9.1% for Mr. Skinner; 6.2% for Mr. Paull, 5.3% for Mr. Alvarez, 4.5% for Mr. Hennequin, 12.5% for Mr. Fenton and 8.3% for Mr. Roberts. Salary increases for Messrs. Skinner and Paull reflected in part the fact that salary levels for those executives were significantly below the 50th percentile of the comparator group. On his promotion, Mr. Alvarez received an additional increase in base salary of 50%, reflecting his enhanced responsibilities as President/COO. Mr. Fenton's annual salary increase in 2006 reflected in part his assumption of oversight responsibility for McDonald's Japan. On September 29, 2006, Mr. Fenton was also awarded an additional increase in base salary of 11%. Further information about compensation awarded to Messrs. Alvarez and Fenton in connection with Mr. Alvarez's promotion and the reclassification of Mr. Fenton's position appears under Mid-year compensation adjustments on page 21 of this Proxy Statement.

• *Annual cash incentive compensation*
Staff employees, including the named executive officers, are generally eligible for awards under the TIP. The TIP establishes a framework for annual cash incentives to promote a consistent worldwide approach to compensation that supports our business objectives and ties incentives to Plan to Win initiatives and participant performance. The primary Company financial measure determining TIP awards is Brand McDonald's operating income, determined on a consolidated or geographic business unit basis (or both) depending on the employee's responsibilities. This metric directly promotes our objective of sustained profitable growth.

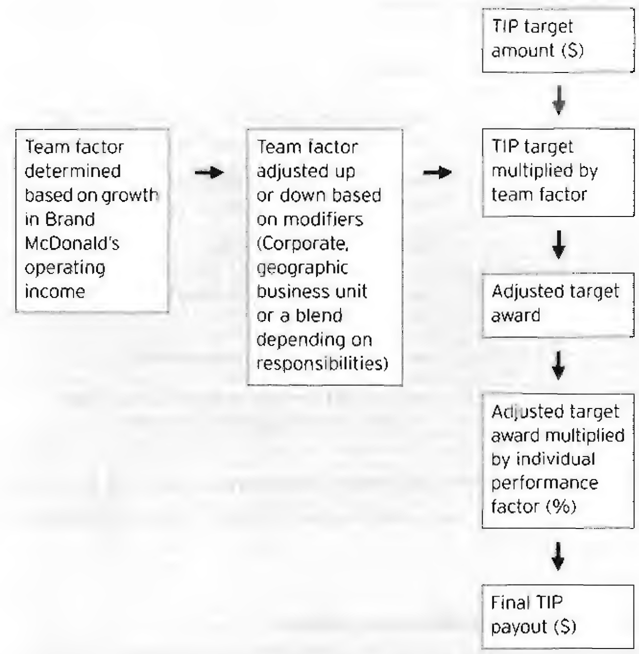
At the start of the year, an annual individual target award, expressed as a percentage of base salary, is established for each TIP participant. Target awards for our executives are set at the 60th to 65th percentile of comparable positions at companies in our comparator group. The Compensation Committee approves individual TIP targets and the parameters for determining final awards by the end of January each year. The target awards for an individual participant may be revised during the year as a result of a promotion or other change of the individual's position. The applicable performance measures may also reflect a participant's move between geographic business units, or to or from the Corporate level.

Final payouts are determined by a combination of a team factor and an individual performance factor. The team factor is primarily based on growth in Brand McDonald's operating income and can be adjusted upwards or downwards based on "modifiers" reflecting other measures of Corporate and/or geographic business unit performance. The final TIP award is determined as shown to the right.

The TIP formula is generally designed so that there will be no payouts if there is no growth in Brand McDonald's operating income. The Compensation Committee is authorized to exercise discretion in special circumstances to make TIP awards when there is no growth in Brand McDonald's operating income, but generally has not done so for named executive officers.

The TIP formula is also designed so that payouts increase in proportion to increases in Brand McDonald's operating income. The final determination of payouts is also based on the modifiers and the individual performance factor. In 2006, the maximum final TIP payout was 250% of the target award. TIP payouts could only be awarded at this maximum level if the Company achieved specified levels of growth in operating income. For Corporate operating income, that level was approximately 5 percentage points above the target level. For the business units, the maximum level of operating income growth was between approximately 5 and approximately 9 percentage points above the target level, depending on the unit.

TIP calculation flow chart



In determining Brand McDonald's operating income for TIP purposes, certain income and/or expense items that are not indicative of ongoing results may be excluded in the discretion of the Compensation Committee. Such items may include, generally: strategic items (charges or credits related to the high-level strategic direction of the Company, such as restructurings, acquisitions and divestitures); regulatory items (charges or credits due to changes in tax or accounting rules); and external items (charges or credits due to external events such as natural disasters). Significant exclusions in 2006 included operating expenses related to (i) impairment charges; and (ii) costs to buy out certain litigating franchisees in Brazil. The substantial financial benefits the Company achieved in divesting Chipotle Mexican Grill, Inc. were not considered in measuring performance for the TIP as those benefits were not reflected in Brand McDonald's operating income.

The target TIP awards, the team factors and the final payouts as a percentage of target awards for the named executive officers in 2006 are summarized in the table below. The final TIP payouts for 2006 are included in the Summary Compensation Table on page 22 of this Proxy Statement.

Named executive officer	*Target TIP award (% of base salary)*	*Team factor* Corporate/geographic business unit(s)/blend	*%*	*Final TIP payout (% of target award)*
James A. Skinner	120	Corporate	185	243
Matthew H. Paull	75	Corporate	185	223
Ralph Alvarez	84 *(1)*	For period before promotion: Corporate (weighted 25%) and business unit (U.S. and Canada) (weighted 75%); For period beginning upon promotion: Corporate only	168	198
Denis Hennequin	75	Corporate (weighted 25%); Europe (weighted 75%)	190	228
Timothy J. Fenton	71 *(2)*	Corporate (weighted 25%); APMEA (weighted 75%)	186	215
Michael J. Roberts	100	Corporate	185	185

(1) Based on a combination of Mr. Alvarez's target award before his promotion and his target award as adjusted in connection with his promotion.
(2) Based on a combination of Mr. Fenton's target award before the reclassification of his position and his target award as adjusted in connection with the reclassification of his position.

The Corporate-level and geographic business unit modifiers were applied in determining the final payouts for the named executive officers as shown in the following table:

	Modifiers	*Potential weight of each modifier (range)*	*Potential overall adjustment of team factor by modifiers (range)*	*Actual impact of modifiers*
Corporate	• Control of growth in Corporate general and administrative expenses • Corporate functional support of geographic business units in Plan to Win initiatives *(1)* • People development	Up to +/-5%	Up to +/-15%	+11.0%
Geographic business units	• Increases in comparable-restaurant guest counts • Customer service improvements • Selected metrics relating to employee commitment/leadership marketing	Up to +/-10%	Up to +/-25%	Europe +16.5% APMEA +11.0% U.S. +13.5% Canada +19.0%

(1) The impact of the Corporate functional support measure varied depending on the Corporate functions for which the named executive officer was responsible; in some cases, a blended rate was used.

• *Long-term incentive compensation*

The aggregate target value of long-term compensation for our executives is generally within the 55th to 60th percentile among the companies in our comparator group. In 2006, aggregate long-term incentive compensation for our named executive officers was significantly above the target levels set by the Compensation Committee for the relevant periods, primarily due to the Company's superior performance in 2004-2006, which was reflected in long-term cash incentive payouts.

For granting purposes, the Company values stock options and RSUs based on the approximate grant-date value of these awards. For senior management, including the named executive officers, long-term incentive compensation consists of three nearly equally weighted components, each of which is intended to tie compensation to different financial measures. The three components are described below.

> Stock options. Awards of stock options vest over time to promote retention and align the interests of executives with those of our shareholders by linking compensation to the performance of our stock. Stock options have an exercise price equal to the closing price of our common stock on the grant date and typically have a term of ten years and vest ratably over four years. The Company's policies and practices regarding stock option grants, including the timing of grants and the determination of exercise prices, are described on page 21 of this Proxy Statement.

> Restricted stock units. Awards of RSUs combine time-based vesting for retention purposes and, in the case of the Company's executives (including the named executive officers), performance-based vesting. RSUs granted in 2006 generally cliff vest after three years, and RSUs granted to the executives are also subject to a performance-based vesting condition linked to the level of compounded annual growth in diluted EPS achieved by the Company during the three-year vesting period. The performance-based RSUs do not vest unless the Company achieves a minimum target level of percentage growth in EPS over baseline EPS for a specified period preceding the grant, or base EPS. EPS was selected as an appropriate performance measure for our executives because they are in a position to control the strategic direction of the Company. RSUs generally vest only if the recipient continues to be actively employed by the Company at the end of the vesting period, except in certain circumstances as discussed on page 33 of this Proxy Statement.

The EPS target for performance-based RSUs granted in 2006 is 7% compounded annual growth over base EPS. If less than 2% compounded growth is achieved, none of these RSUs will vest. If EPS growth is at or above the 2% threshold but below the 7% target, a portion of the awards will vest in proportion to the level of EPS growth achieved. Certain extraordinary items and factors (whether positive or negative) may be excluded from the EPS measure where appropriate, at the discretion of the Compensation Committee; we refer to these as extraordinary items. The most significant of these extraordinary items excluded from base EPS for the RSUs granted to the named executive officers as regular annual awards in 2006 were: (i) a benefit due to a favorable audit settlement of the Company's 2000-2002 U.S. tax returns; and (ii) incremental tax expense related to the Company's decision to take advantage of the one-time opportunity provided under the Homeland Investment Act of 2003 to repatriate certain foreign earnings. Mr. Alvarez also received a special award of RSUs in connection with his promotion, which we refer to as promotional RSUs and which are further described on page 21 of this Proxy Statement. Because the promotional RSUs were granted on a later date than the other RSUs, base EPS was calculated over a different period and excluded different extraordinary items.

In 2003, we granted a special, one-time award of RSUs to a limited number of high-level employees, including the named executive officers. Vesting of these RSUs was service-based alone. These grants were intended to promote retention of the recipients in light of depressed trading prices for the Company's common stock, which had significantly reduced the value of previously-granted stock-based incentives. These RSUs vested in 2006.

> **Cash performance unit plan.** Members of senior management, including the named executive officers, are eligible for long-term cash incentive awards under the CPUP. The CPUP operates on non-overlapping three-year cycles with a cumulative payout at the end of the cycle, based on achievement of performance measures over the entire performance period.

Awards under the CPUP granted in 2004 for the performance period January 1, 2004 to December 31, 2006 were earned at the end of 2006 and were paid in March 2007. The performance measures for the 2004-2006 performance cycle were factors other than stock performance that are important to the Company's long-term success: consolidated three-year compounded annual Brand McDonald's operating income growth (weighted 75%) and average return on total assets or ROTA (weighted 25%). The final payout was adjusted by a multiplier based on the Company's cumulative total shareholder return versus the S&P 500 Index, or TSR. Final CPUP payouts were determined as shown below:

CPUP calculation flow chart

CPUP target amount ($)

↓

Payout factor determined based on consolidated three-year compound annual Brand McDonald's operating income growth (weighted 75%) and average return on total assets (weighted 25%)

↓

Payout factor adjusted by cumulative total shareholder return multiplier

↓

Final CPUP payout ($)

We determined that the blend of performance metrics reflected in awards under the CPUP appropriately balances factors that reflect the Company's successful accomplishment of Plan to Win initiatives over the long term. Growth in Brand McDonald's operating income over the three-year period measures the Company's achievement of a sustained increase in profitability. The use of ROTA is intended to promote improved returns on the Company's capital spending and overall asset base through strategic decisions, such as reinvestment in existing restaurants and in new restaurant development and divestitures of under-performing assets, that are consistent with the Plan to Win. The use of the TSR multiplier ties the CPUP payouts to the return our shareholders receive from their investment in McDonald's stock.

The 2004-2006 CPUP formula was designed so that there would be no final payouts unless threshold targets were met for both the operating income and ROTA measures. Above this threshold, final awards would increase, up to the maximum award, in proportion to performance determined based on the two performance measures (subject to adjustment based on the TSR multiplier). The maximum award each named executive officer could earn was 230% of the target award. The threshold and maximum levels of performance on these measures for the 2004-2006 performance cycle are summarized in the table below:

Measure	*Threshold*	*Maximum*
Consolidated three-year compounded annual Brand McDonald's operating income growth	2.0%	10.0%
Three-year average return on total assets	12.5%	14.5%

The Company's TSR was in the 70th percentile of the S&P 500 Index during the 2004-2006 performance period. Accordingly, the impact of the total shareholder return multiplier was 7.5%.

Final CPUP payouts were 215% of the target awards, pro-rated in the case of Mr. Roberts to reflect a shortened performance period ended on October 31, 2006, the last day of Mr. Roberts' retention period under the Company's executive retention plan or ERP, which is described on page 29 of this Proxy Statement. The final payouts are included in the Summary Compensation Table on page 22 of this Proxy Statement.

The Committee approved new CPUP awards in February 2007 for the performance period January 1, 2007 to December 31, 2009 based on substantially the same performance metrics as the 2004-2006 CPUP, but with new threshold, target and maximum levels with respect to each metric. The spread between threshold and maximum performance levels for the 2007-2009 performance period is 8 percentage points for consolidated three-year compounded annual Brand McDonald's operating income growth and 3 percentage points for return on total assets. Participants will not receive any payout under the new CPUP until after the end of the performance period on December 31, 2009.

- *Retirement and potential post-employment compensation*

> **Retirement plans.** Except as required by law outside the United States, McDonald's does not maintain any defined benefit pension plans for our executives.

All the named executive officers except Mr. Hennequin participate in our Profit Sharing and Savings Plan, a broad-based, tax-qualified defined contribution plan and our Excess Benefit and Deferred Bonus Plan, an unfunded, non-qualified plan. The Profit Sharing Plan includes a 401(k) feature that provides eligible employees with the opportunity to make pre-tax contributions up to the limits imposed under the Internal Revenue Code and receive Company matching contributions. In addition to the Profit Sharing Plan, the Company maintains the Excess Benefit and Deferred Bonus Plan for certain management and highly compensated employees. Under the Excess Benefit Plan, participants have the opportunity to (i) make tax deferred contributions from salary, TIP and CPUP; and (ii) receive Company contributions that cannot be made under the Profit Sharing Plan because of limitations applicable to tax-qualified plans. Additional terms of the Excess Benefit and Deferred Bonus Plan are described under Nonqualified Deferred Compensation on page 28 of this Proxy Statement.

› **Executive retention plan.** In 1998, the Company adopted its Executive Retention Plan, or ERP, to provide for retention, transition and severance arrangements for specified members of senior management and non-competition protection for McDonald's on the departure of those employees. The ERP is described in further detail on page 29 of this Proxy Statement. The only named executive officers who participate in the ERP are Messrs. Skinner, Paull and Roberts. Messrs. Skinner and Paull are currently in the "retention period" under the ERP, and Mr. Roberts became a "transition officer" on November 1, 2006. Mr. Roberts' transition agreement under the ERP is identical to the standard form of transition agreement provided in the ERP, except that (i) Mr. Roberts received a bonus under the TIP for 2006 based on the attainment of the actual performance goals (rather than based on target); and (ii) certain payments to Mr. Roberts have been delayed to comply with Internal Revenue Service regulations. The Compensation Committee has determined not to extend the benefits of the ERP to any officers other than those who already participate.

• *Savings arrangements and retirement benefits in France*
Mr. Hennequin is not eligible to participate in the Profit Sharing Plan or the Excess Benefit and Deferred Bonus Plan because he is not employed in the United States. Mr. Hennequin participates in the Plan Epargne Enterprise, a savings arrangement that is tax-efficient under French law and is offered generally to the Company's employees in France. Under this arrangement, Mr. Hennequin has the opportunity to invest in an interest in a trust that holds Company shares. Mr. Hennequin's ability to withdraw his interest in the trust is by its terms subject to significant limitations for five years following his investment, other than in connection with the termination of his employment with the Company. Mr. Hennequin is also eligible for limited retirement benefits under the applicable collective bargaining agreement in France as described on page 32 of this Proxy Statement.

› **Change-in-control employment agreements.** The Company has entered into change-of-control employment agreements with some of its officers, including all of the named executive officers other than Mr. Hennequin. These agreements are intended to avoid a situation in which the career and financial incentives of our officers may be contrary to the interests of our shareholders, which could arise in the event of a threatened takeover of McDonald's. These agreements and the potential benefits to the named executive officers are described below under Potential payments upon termination of employment or change in control and were the subject of a special review conducted in 2005 by the Compensation Committee in consultation with the Cook firm.

› **Severance benefits and policy.** Messrs. Alvarez and Fenton may be entitled to receive severance payments and other benefits under the McDonald's Corporation Severance Plan, a broad-based plan that provides severance benefits to U.S. employees based on their level of seniority. The Severance Plan is described on page 31 of this Proxy Statement. Benefits under the Severance Plan are not available to Messrs. Skinner and Paull because they are ERP participants. Mr. Hennequin is not eligible for benefits under the Severance Plan because he is not a U.S. employee, but he is eligible for limited severance benefits under the applicable collective bargaining agreement as described on page 32 of this Proxy Statement.

In November 2006, the Committee adopted a policy under which the Company will seek shareholder approval for future severance payments to a named executive officer if such payments would exceed 2.99 times the sum of (a) the named executive officer's annual base salary as in effect immediately prior to termination of employment; and (b) the highest annual bonus awarded to the named executive officer by the Company in any of the Company's three full fiscal years immediately preceding the fiscal year in which termination of employment occurs. Certain types of payments are excluded from this policy, such as amounts payable under arrangements that apply to classes of employees other than the named executive officers or that predate the implementation of the policy, as well as any payment that the Compensation Committee determines is a reasonable settlement of a claim that could be made by the named executive officer.

• *Other compensation*
McDonald's provides the following perquisites and personal benefits to named executive officers: Company-provided cars, financial planning, annual physical examinations and, in the case of the CEO only, personal use of the Company's aircraft. While the CEO is the only named executive officer who is permitted to use the Company's aircraft for personal travel, on certain occasions, at the discretion of the CEO, executives may be accompanied by their spouses when traveling to business events on the Company's aircraft. Named executive officers must reimburse McDonald's for a portion of the expense associated with Company-owned cars according to pre-established payment schedules, and the CEO is similarly required to reimburse to the Company the maximum reimbursement amount permitted under Federal Aviation Authority regulations applicable to the Company's operation of its aircraft. The Compensation Committee considers perquisites as reported in the tally sheets it reviews annually.

Other benefits reflected in the Summary Compensation Table include, in the case of named executive officers based overseas, certain housing and other expenses that are paid by the Company and that can be a significant component of an executive's total compensation package.

- *Mid-year compensation adjustments in 2006*

In August 2006, Mr. Alvarez was promoted to President/COO from his previous position as President of McDonald's North America. On his promotion, Mr. Alvarez received a promotional equity grant consisting of 50% stock options and 50% performance-based RSUs. Mr. Alvarez also received an additional special grant of RSUs that vest, subject to performance-based conditions, at the end of five years. This special RSU grant, and particularly its extended vesting period, reflects the Company's strong desire to retain Mr. Alvarez for the long term in a very competitive market for highly qualified executives. The EPS performance target for all of the RSUs granted in connection with Mr. Alvarez's promotion is compounded annual growth of 7% per year for the performance period over base EPS, which for the promotional RSUs is EPS for the 12-month period ended June 2006. Mr. Alvarez's promotional equity grant was determined by the Compensation Committee with the advice of the Cook firm.

In September 2006, the position of President of APMEA, held by Mr. Fenton, was reevaluated and reclassified to the same level as the positions of the Presidents of the U.S. and Europe segments to reflect the increasing importance of our APMEA markets in our global business strategy. In connection with the reclassification of his position, Mr. Fenton's annual base salary and target TIP and long-term incentive awards were increased to a level commensurate with the significance of his role and the compensation paid to other executives of his rank.

Policy with respect to deductibility of compensation

Section 162(m) of the Internal Revenue Code of 1986 generally limits to $1 million the tax deductibility of annual compensation paid to certain officers. Performance-based compensation may, however, be excluded from the limit so long as it meets certain requirements. While the Compensation Committee retains the flexibility to compensate named executive officer performance that it believes has increased shareholder value, the Committee remains focused on using compensation vehicles that allow the Company to deduct compensation expense. The Committee believes that awards under the TIP and CPUP, as well as stock options and performance-based RSUs granted in 2006 to the named executive officers satisfy the requirements for exemption under Section 162(m). Therefore, we do not expect that the deduction of any compensation granted in 2006 will be disallowed as a result of the application of Section 162(m).

Policy regarding security ownership of management

We believe that management will more effectively pursue the long-term interests of shareholders if they are shareholders themselves. Therefore, the Company has adopted the minimum share ownership requirements that are described on page 12 of this Proxy Statement.

Policies and practices regarding equity awards

In September 2006, the Company adopted a formal policy with respect to grants of equity compensation awards to our employees and directors, which generally reflects our pre-existing practices. Under the policy, awards may be granted to Company employees and directors only at times when the Company does not have any material nonpublic information. Consistent with the terms of the Company's Amended and Restated 2001 Omnibus Stock Ownership Plan, or the Amended 2001 Plan, and our existing practices, stock options may be granted only with an exercise price at or above the closing market price of the Company's common stock on the date of grant.

Our broad-based equity grants are generally made at a scheduled meeting of the Committee occurring at approximately the same time each year following the Company's release of financial information and otherwise at a time when we are not in possession of material nonpublic information. In 2006, annual grants were generally made at the Committee's scheduled meeting in February. Our new policy requires that we continue to follow this approach.

In 2006, the annual equity grant to our CEO was made at the regularly scheduled Compensation Committee meeting in March concurrently with the CEO's performance review and the establishment of his annual goals and objectives by the chairs of the Governance and Compensation Committees. The 2006 grant to the CEO was made when the Company was not in possession of any material nonpublic information. We intend to grant future equity awards to the CEO at the same meeting in which the Committee approves any broad-based equity grant.

The Compensation Committee may choose to make grants of equity awards outside the annual broad-based grant, including in the case of newly hired employees and in connection with promotions. An Interim Grant Committee of the Board has been delegated authority to make such grants between regularly scheduled meetings of the Compensation Committee, but only to employees who rank below the level of senior vice president. The current members of the Interim Grant Committee are Directors McKenna and Skinner.

Summary compensation table

The following table summarizes the total compensation earned by or paid to our named executive officers in 2006:

Name and principal position (a)	*Year* (b)	*Salary ($)(1)* (c)	*Stock awards ($)(2)* (e)	*Option awards ($)(3)* (f)	*Non-equity incentive plan compensation ($)(4)* (g)		*All other compensation ($)(5)* (i)	*Total ($)* (j)
James A. Skinner Vice Chairman and Chief Executive Officer	2006	$1,177,692	$918,376	$1,402,129	*Annual:* *Long-term:* *Total:*	$3,500,000 5,333,195 8,833,195	$378,100	$12,709,492
Matthew H. Paull Corporate Senior Executive Vice President and Chief Financial Officer	2006	683,333	534,851	510,864	*Annual:* *Long-term:* *Total:*	1,155,000 1,759,416 2,914,416	173,008	4,816,472
Ralph Alvarez President and Chief Operating Officer	2006	703,077	959,565	546,585	*Annual:* *Long-term:* *Total:*	1,500,000 2,169,111 3,669,111	168,563	6,046,901
Denis Hennequin President, McDonald's Europe *(6)*	2006	534,427	153,974	297,902	*Annual:* *Long-term:* *Total:*	919,754 1,610,176 2,529,930	298,914	3,815,147
Timothy J. Fenton President, McDonald's Asia, Pacific, Middle East and Africa *(7)*	2006	462,500	182,554	296,668	*Annual:* *Long-term:* *Total:*	765,000 997,063 1,762,063	865,151	3,568,936
Michael J. Roberts Former President and Chief Operating Officer *(8)*	2006	962,500	911,636	1,112,711	*Annual:* *Long-term:* *Total:*	1,802,775 3,440,663 5,243,438	273,606	8,503,891

(1) The base salary earned in 2006 by the named executive officers reflects both regular increases in their annual base salaries and, in the case of Messrs. Alvarez and Fenton, additional raises in connection with Mr. Alvarez's promotion and the reclassification of Mr. Fenton's position. The annualized rates of base salary in effect as of December 31, 2006 for the named executive officers who were serving as such at the end of the year were as follows:

James A. Skinner	$1,200,000
Matthew H. Paull	690,000
Ralph Alvarez	900,000
Denis Hennequin	538,292
Timothy J. Fenton	500,000

(2) Represents the expense to the Company in 2006, as computed in accordance with FAS 123(R) and reported in our financial statements, of RSUs granted to the named executive officers under the Amended 2001 Plan. Generally, RSUs vest on the third anniversary of the grant date and are subject to performance-based vesting conditions linked to the Company's achievement of target levels of diluted earnings per share growth. Information with respect to the RSUs granted to the named executive officers in 2006 is disclosed in the Grants of Plan-Based Awards Table on page 24 of this Proxy Statement and the accompanying notes. Information with respect to RSUs reflected in this column that were granted in years before 2006 is disclosed in the Outstanding Equity Awards at 2006 Fiscal Year-End table beginning on page 26 of this Proxy Statement and the accompanying notes.

(3) Represents the expense to the Company in 2006, as computed in accordance with FAS 123(R) and reported in our financial statements, of stock options granted to the named executive officers under the Amended 2001 Plan. Options have an exercise price equal to the closing price of the Company's common stock on the date of grant, generally vest in equal annual installments over a four-year period, and are subject to the provisions of the Amended 2001 Plan. Information with respect to the options granted to the named executive officers in 2006 is disclosed in the Grants of Plan-Based Awards Table on page 24 of this Proxy Statement and the accompanying notes. Information with respect to options reflected in this column that were granted in years before 2006 is disclosed in the Outstanding Equity Awards at 2006 Fiscal Year-End table beginning on page 26 of this Proxy Statement and the accompanying notes.

(4) Non-equity incentive plan compensation consists of annual and long-term components. The annual component reflects the amount earned by each named executive officer under the 2006 TIP. The long-term component reflects awards under the CPUP for the three-year performance period that began on January 1, 2004 and ended on December 31, 2006. As described in note 8 below, Mr. Roberts' CPUP award is based on a shortened performance period that ended on October 31, 2006.

For additional information about equity and non-equity incentive awards and payments to the named executive officers, including the performance targets on the basis of which these awards were earned, please see the Compensation Discussion and Analysis beginning on page 14 and the Grants of Plan-Based Awards table on page 24 of this Proxy Statement.

(5) "All Other Compensation" includes the Company's contributions to the McDonald's Profit Sharing and Savings Plan and the McDonald's Excess Benefit and Deferred Bonus Plan on behalf of the named executive officers (other than Mr. Hennequin), in the following amounts:

James A. Skinner	$349,546
Matthew H. Paull	158,766
Ralph Alvarez	149,338
Timothy J. Fenton	86,984
Michael J. Roberts	236,500

The Company's contributions to the Excess Benefit and Deferred Bonus Plan are also reflected in the Nonqualified Deferred Compensation Table on page 28 of this Proxy Statement.

For Mr. Hennequin, "All Other Compensation" includes the Company's contributions of $2,873 to his Plan Epargne Enterprise account.

"All Other Compensation" also includes perquisites and personal benefits provided by the Company to its executives, including personal use of Company-owned cars (in Mr. Hennequin's case, in the amount of $30,665); financial counseling and annual physical examinations. Personal use of corporate aircraft is available to the CEO only; the CEO reimburses the Company in part for his personal use of the Company's aircraft, subject to the maximum reimbursement amount permitted under Federal Aviation Authority regulations applicable to the Company's operation of its aircraft. On certain occasions, at the discretion of the CEO, named executive officers may be accompanied by their spouses when traveling to business events on the Company's aircraft.

For Messrs. Alvarez, Fenton, Hennequin and Roberts, this amount also includes the cost to the Company of the travel expenses of the named executive officers' respective spouses to accompany them on business trips. In addition, the amount for Messrs. Alvarez and Fenton includes a Company-provided holiday gift.

In the case of the Company's named executive officers based overseas, Messrs. Hennequin and Fenton, this amount also includes relocation and/or other benefits in connection with their international assignments, as follows:

› For Mr. Hennequin: $224,450 paid by the Company for a residence in London; Company-paid expenses incurred in traveling to and from his home in Paris and the Company's European office in London; certain local taxes and banking fees reimbursed by the Company; gas and parking expenses; and utilities and security, gardening and cleaning services for Mr. Hennequin's residence in London. These amounts were converted from Euro as described in note 6 below.

› For Mr. Fenton: $153,916 Company-paid expenses in connection with the sale of his home in the United States and his relocation; tax gross-ups of $29,671 in respect of certain of those Company-paid relocation expenses; $334,905 paid by the Company for Mr. Fenton's residence and utilities in Hong Kong; $97,384 in travel expenses for home leave trips for Mr. Fenton and his family; $85,825 to purchase and rent furnishings, and for design services for Mr. Fenton's residence in Hong Kong; travel and other expenses in connection with Mr. Fenton's housing search; Company-paid commuting costs within Hong Kong; and additional Company-paid relocation, travel, and home leave expenses. Some of these benefits were provided under McDonald's global relocation program for long-term assignments. Amounts paid in Hong Kong dollars were converted into U.S. dollars as described in note 7 below.

The incremental cost of perquisites is based on actual charges to the Company, except as follows: (i) personal use of Company-owned cars includes a pro rata portion of the purchase price, fuel and maintenance, based on personal use; and (ii) with respect to Mr. Skinner, personal use of corporate aircraft includes fuel costs, on-board catering, landing/handling fees and flight attendants, and excludes fixed costs which do not change based upon usage, such as pilot salaries and the cost of capital invested in corporate aircraft.

(6) Reflects amounts paid to Mr. Hennequin in Euros, which were converted into U.S. dollars at a rate of EUR .80 to U.S. $1. This is the average of the daily conversion rates for each business day of fiscal 2006, as quoted by Oanda.com.

(7) Certain amounts included in "All Other Compensation" for Mr. Fenton were paid in Hong Kong Dollars and converted into U.S. dollars at a rate of HKD 7.77 to U.S. $1. This is the average of the daily conversion rates for each business day of fiscal 2006, as quoted by Oanda.com.

(8) As of November 1, 2006, Mr. Roberts became a "transition officer" under the ERP, the terms of which are described below. The following amounts earned in 2006 pursuant to the ERP are included in the Salary, Non-Equity Incentive Plan Compensation and All Other Compensation columns, respectively, for Mr. Roberts: (i) $162,500 in base salary; (ii) a bonus under the TIP (based on actual attainment of performance goals for 2006, rather than a target bonus, in accordance with Mr. Roberts' transition agreement) of $1,802,775; (iii) a prorated bonus under the CPUP of $3,440,663 based on a shortened performance period ended on October 31, 2006, the last day of Mr. Roberts' retention period under the ERP; and (iv) a cash payment of $17,875 in lieu of a matching contribution for November and December of 2006 under the Company's Excess Benefit Plan. Mr. Roberts' receipt of these amounts has been deferred to May 1, 2007 in compliance with Section 409A of the Internal Revenue Code. Mr. Roberts has not been required to provide substantial services to McDonald's since October 31, 2006.

Grants of plan-based awards

Name (a)	Plan name	Grant date (b)	Estimated future payouts under non-equity incentive plan awards: Target ($)(d)	Maximum ($)(e)	Estimated future payouts under equity incentive plan awards (3): Threshold (#)(f)	Target (#)(g)	Maximum (#)(h)	All other option awards: number of securities underlying options (#)(4)(j)	Exercise or base price of option awards ($/sh)(k)	Grant date fair value of stock and option awards ($)(5)(l)
James A.	TIP(1)		$1,440,000	$3,600,000						
Skinner	Amd 2001 Plan(2)	3/23/06			12,667	50,666	50,666(6)			$1,631,952
		3/23/06						151,910	$34.54(7)	1,402,253
Matthew H.	TIP		517,500	1,293,750						
Paull	Amd 2001 Plan				3,437	13,748	13,748			467,982
		2/14/06						41,221	36.37	400,663
Ralph	TIP		755,753	1,889,383						
Alvarez(8)	Amd 2001 Plan	9/18/06			8,352	33,405(9)	33,405			1,172,181
		9/18/06			33,405	133,619(10)	133,619			4,688,691
		2/14/06			3,437	13,748	13,748			467,982
		2/14/06			3,437	13,748	13,748			467,982
		9/18/06						100,161	37.42	1,001,660
		2/14/06						41,221	36.37	400,663
Denis	TIP		403,719	1,009,297						
Hennequin	Amd 2001 Plan	2/14/06			2,063	8,249	8,249			280,796
		2/14/06						24,733	36.37	240,402
Timothy J.	TIP		356,301	890,753						
Fenton	Amd 2001 Plan	2/14/06			2,063	8,249	8,249			280,796
		2/14/06						24,733	36.37	240,402
Michael J.	TIP		975,000	2,437,500						
Roberts	Amd 2001 Plan	2/14/06			8,593	34,369	34,369			1,169,921
		2/14/06						103,051	36.37	1,001,644

(1) "TIP" denotes the Target Incentive Plan. The general terms of the TIP and the performance goals for 2006 awards are described on page 16 of this Proxy Statement. The threshold, target and maximum awards for Messrs. Alvarez and Fenton reflect increases during the year in their target awards in connection with Mr. Alvarez's promotion and the reclassification of Mr. Fenton's position; amounts shown were based in part on pre-promotion target percentages and in part on new target percentages, with each component weighted in proportion to the portions of the year during which each executive officer served in his former and new positions, applied in each case to the named executive officer's annualized base salary as in effect on December 31, 2006.

(2) "Amd 2001 Plan" denotes the Amended 2001 Plan.

(3) Reflects grants of RSUs in 2006 subject to performance-based vesting conditions under the Amended 2001 Plan. Generally, RSUs vest on February 14, 2009, except for (i) Mr. Skinner's RSUs, which vest on March 23, 2009; and (ii) certain promotional grants to Mr. Alvarez, described below, 33,405 of which vest on September 18, 2009 and 133,619 of which vest on September 18, 2011. In addition, vesting of RSUs is based on the Company's achievement of specified diluted EPS growth during the performance period ending on December 31, 2008. The performance target for all the RSU awards granted to the named executive officers in 2006 is compounded annual diluted EPS growth of 7%, determined by comparing EPS as measured at the end of the relevant performance period to base EPS. Both base EPS and EPS for the performance period are adjusted to exclude certain extraordinary items. If the target of 7% growth is achieved, the RSUs will vest in full; if less than 2% growth is achieved, none of the RSUs will vest; and if EPS growth at or above the 2% threshold but below the 7% target is achieved, RSUs will partially vest. For the RSU awards other than the promotional grants to Mr. Alvarez described in note 8 below, base EPS was based on EPS for fiscal 2005 and modified to exclude certain extraordinary items as described on page 18 of this Proxy Statement.

(4) Reflects grants of stock options in 2006 under the Amended 2001 Plan. Options have an exercise price equal to the closing price of the Company's common stock on the date of grant. Mr. Skinner's option award vests in four equal annual installments beginning on March 23, 2007. Option awards for Mr. Alvarez include, in addition to his 2006 annual option grant, a special award in connection with his promotion, granted on September 18, 2006 under the Amended 2001 Plan, of 100,161 options that vest in equal installments on September 18 in each of 2007, 2008, 2009 and 2010. Mr. Alvarez's options received pursuant to the 2006 annual grant, and the option awards for all the other named executive officers, vest in equal installments on February 14 in each of 2007, 2008, 2009 and 2010.

(5) Represents the aggregate grant date fair value, computed in accordance with FAS 123(R), of RSUs and stock options granted to the named executive officers in 2006 under the Amended 2001 Plan. In the case of RSUs, the values in this column are based on the closing market price of the Company's common stock on the date of the award, less the present value of expected dividends over the vesting period. In the case of options, the values in this column are determined using a closed-form pricing model based on the following assumptions: expected volatility based on historical experience of 26.4%; an expected annual dividend yield of 1.99%; a risk-free rate of return of 4.55%; and expected option life based on historical experience of 6.22 years.

(6) Mr. Skinner's 2006 RSU award was granted on March 23, 2006 and vests on March 23, 2009 based on achievement of the performance criteria described in note 3. As described under Policies and practices regarding equity awards on page 21 of this Proxy Statement, the annual equity grant to Mr. Skinner was made at the regularly scheduled Compensation Committee meeting in March 2006, while the annual equity grant to other employees (including the other named executive officers) occurred in February 2006.

(7) Mr. Skinner's 2006 option award was granted on March 23, 2006, as described in note 6, and the exercise price for the award is equal to the closing price of the Company's common stock on that date.

(8) In connection with his promotion, Mr. Alvarez was granted a special award of (i) 100,161 stock options; and (ii) RSUs, consisting of 33,405 RSUs which vest on September 18, 2009 and 133,619 RSUs which vest on September 18, 2011. In addition, vesting of these RSUs is based on the Company's achievement of compounded annual diluted EPS growth during the performance period ending on December 31, 2008, as described in note 3. However, in the case of these RSUs, base EPS is based on the Company's EPS for the 12 months ended on June 30, 2006 (the last quarter for which the Company reported financial results prior to the grant date of the promotional RSUs), adjusted to exclude certain extraordinary items.

(9) Vests on September 18, 2009 based on achievement of the performance criteria described in notes 3 and 8.

(10) Vests on September 18, 2011 based on achievement of the performance criteria described in notes 3 and 8.

Outstanding equity awards at 2006 fiscal year-end

	Option awards				Stock awards			
Name (a)	Number of securities underlying unexercised options (#) exercisable (b)(1)	Number of securities underlying unexercised options (#) unexercisable (c)(1)	Option exercise price ($) (e)	Option expiration date (f)	Number of shares or units of stock that have not vested (#) (g)(2)	Market value of shares or units of stock that have not vested ($) (h)(3)	Equity incentive plan awards: number of unearned shares, units or other rights that have not vested (#) (i)(4)	Equity incentive plan awards: market or payout value of unearned shares, units or other rights that have not vested ($) (j)(3)
James A. Skinner	100,000	0	$40.4375	5/19/12				
	106,193	0	35.25	3/21/13				
	150,000	0	29.43	2/02/11				
	235,000	0	28.75	3/20/12				
	120,000	40,000	14.31	3/18/13				
	31,250	31,250	26.63	2/16/14				
	31,250	31,250	25.31	5/20/14				
	125,000	125,000	31.21	12/01/14				
	0	151,910	34.54	3/23/16				
							90,666	$4,019,224
Matthew H. Paull	27,000	0	40.4375	5/19/12				
	41,800	0	35.25	3/21/13				
	41,800	0	29.43	2/02/11				
	85,000	0	28.75	3/20/12				
	60,000	30,000	14.31	3/18/13				
	18,750	18,750	26.63	2/16/14				
	18,750	18,750	25.31	5/20/14				
	7,477	22,422	32.60	2/16/15				
	0	41,221	36.37	2/14/16				
							48,718	2,159,669
Ralph Alvarez	31,500	0	26.25	3/23/08				
	24,000	0	40.4375	5/19/12				
	25,300	0	35.25	3/21/13				
	21,500	0	29.43	2/02/11				
	85,000	0	28.75	3/20/12				
	0	18,000	14.31	3/18/13				
	18,000	18,000	26.63	2/16/14				
	18,000	18,000	25.31	5/20/14				
	9,202	27,597	32.60	2/16/15				
	0	41,221	36.37	2/14/16				
	0	100,161	37.42	9/18/16				
					20,000	$886,600	206,790	9,167,001
Denis Hennequin	45,000	0	25.4375	5/22/07				
	70,000	0	26.25	3/23/08				
	40,000	0	40.4375	5/19/12				
	38,500	0	35.25	3/21/13				
	38,000	0	29.43	2/02/11				
	48,500	0	29.29	5/03/12				
	30,600	10,200	18.73	5/30/13				
	6,120	2,040	23.93	9/24/13				
	10,000	10,000	26.63	2/16/14				
	10,000	10,000	25.45	5/21/14				
	3,450	10,350	32.60	2/16/15				
	0	24,733	36.37	2/14/16				
					13,602	602,977	8,249	365,678

(table continued on next page)

Outstanding equity awards at 2006 fiscal year-end *(continued)*

	Option awards				Stock awards			
Name (a)	Number of securities underlying unexercised options (#) exercisable (b)(1)	Number of securities underlying unexercised options (#) unexercisable (c)(1)	Option exercise price ($) (e)	Option expiration date (f)	Number of shares or units of stock that have not vested (#) (g)(2)	Market value of shares or units of stock that have not vested ($) (h)(3)	Equity incentive plan awards: number of unearned shares, units or other rights that have not vested (#) (i)(4)	Equity incentive plan awards: market or payout value of unearned shares, units or other rights that have not vested ($) (j)(3)
Timothy J. Fenton	40,000	0	$ 26.25	3/23/08				
	500	0	45.625	4/01/09				
	33,000	0	40.4375	5/19/12				
	40,549	0	35.25	3/21/13				
	38,000	0	29.43	2/02/11				
	47,500	0	28.75	3/20/12				
	0	10,400	14.31	3/18/13				
	12,500	12,500	26.63	2/16/14				
	12,500	12,500	25.31	5/20/14				
	6,327	18,972	32.60	2/16/15				
	0	24,733	36.37	2/14/16				
					8,436	$373,968	8,249	$ 365,678
Michael J. Roberts	50,000	0	26.25	3/23/08				
	500	0	45.625	4/01/09				
	75,000	0	40.4375	5/19/12				
	100,000	0	35.25	3/21/13				
	100,000	0	29.43	2/02/11				
	125,000	0	28.75	3/20/12				
	81,000	27,000	14.31	3/18/13				
	31,250	31,250	26.63	2/16/14				
	31,250	31,250	25.31	5/20/14				
	87,500	87,500	31.21	12/01/14				
	0	103,051	36.37	2/14/16				
					30,000	1,329,900	64,369	2,853,478

(1) In general, options expire on the tenth anniversary of grant (with the exception of options due to expire on May 19, 2012 and March 21, 2013, which were granted on May 19, 1999 and March 21, 2000, respectively, and expire 13 years after the grant date). In general, options vest in equal installments on the first, second, third and fourth anniversaries of the grant date (with the exception of options due to expire in 2007 and 2008, which vested in equal installments on the first, third, fifth and seventh anniversaries of the grant date).

(2) The awards reflected in column (g) are service-vested RSUs that vest on the dates set forth in the table below.

Named executive officer	Vesting date	Number of RSUs
Ralph Alvarez	7/14/08	20,000
Denis Hennequin	2/16/08	4,602
	3/18/08	9,000
Timothy J. Fenton	2/16/08	8,436
Michael J. Roberts	7/14/08	30,000

(3) The market value of these awards was calculated by multiplying the number of shares covered by the award by $44.33, the closing price of McDonald's stock on the NYSE on December 29, 2006.

(4) The awards reflected in column (i) are unvested performance-based RSUs that vest on the dates set forth in the table below, assuming that the applicable target performance measure for the awards is met as described on page 18 of this Proxy Statement.

Named executive officer	Vesting date	Number of RSUs
James A. Skinner	12/01/07	40,000
	3/23/09	50,666
Matthew H. Paull	12/01/07	25,000
	2/16/08	9,970
	2/14/09	13,748
Ralph Alvarez	2/16/08	12,270
	2/14/09	13,748
	9/18/09	33,405
	2/14/11	13,748
	9/18/11	133,619
Denis Hennequin	2/14/09	8,249
Timothy J. Fenton	2/14/09	8,249
Michael J. Roberts	12/01/07	30,000
	2/14/09	34,369

Option exercises and stock vested–fiscal 2006

	Option awards		Stock awards	
Name (a)	Number of shares acquired on exercise (#)(b)	Value realized on exercise ($)(c)	Number of shares acquired on vesting (#)(d)	Value realized on vesting ($)(e)(1)
James A. Skinner	195,000	$2,915,824	61,538	$2,159,984
Matthew H. Paull	64,200	1,177,266	38,462	1,350,016
Ralph Alvarez	78,222	1,384,239	30,769	1,079,992
Denis Hennequin			18,000	631,800
Timothy J. Fenton	85,200	1,376,366	14,000	491,400
Michael J. Roberts	102,250	1,415,817	42,308	1,485,011

(1) The amounts reported in column (e) for Messrs. Alvarez and Roberts were deferred pursuant to the terms of the McDonald's Excess Benefit and Deferred Bonus Plan, which is described below.

Nonqualified deferred compensation–fiscal 2006

Name (a)	Executive contributions in last FY ($)(b)(1)	Registrant contributions in last FY ($)(c)(1)	Aggregate earnings in last FY ($)(d)	Aggregate withdrawals/ distributions ($)(e)	Aggregate balance at last FYE ($)(f)
James A. Skinner	$ 456,654	$331,413	$1,067,775	$0	$12,556,774
Matthew H. Paull	196,500	140,633	233,183	0	2,654,429
Ralph Alvarez	1,136,896	125,188	534,857	0	3,229,857
Timothy J. Fenton	103,615	71,184	132,848	0	916,544
Michael J. Roberts	1,787,511	218,367	590,127	0	6,008,312

(1) All of the amounts reported in columns (b) and (c) are also reported as compensation for 2006 in the Summary Compensation Table on page 22 of this Proxy Statement.

- *McDonald's Excess Benefit and Deferred Bonus Plan*

The McDonald's Excess Benefit and Deferred Bonus Plan was established as of January 1, 2005 as a successor plan to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, which is described below. The plan is a non-tax-qualified, unfunded plan that allows certain management and highly compensated employees of the Company, including all of the named executive officers except Mr. Hennequin, to (i) make tax-deferred contributions from their base salary and incentive awards under the TIP and CPUP; and (ii) receive Company matching contributions, in excess of the annual Internal Revenue Service limits that apply to deferrals and Company contributions under our Profit Sharing Plan. Certain participants were also permitted to make an election on or before March 15, 2005 to defer receipt of the value of all or none (but not a portion) of certain awards of time-vested RSUs.

Participants may elect to receive distributions of amounts deferred under the Plan either in a lump sum or in regular monthly, quarterly or annual installments over a period of up to 15 years following their "separation from service" with the Company (within the meaning of Section 409A of the Internal Revenue Code). Participants must elect their distribution schedules at the time the amounts are deferred and such elections are irrevocable. Distributions for participants in the Plan are delayed for six months following the participant's separation from service in order to comply with Section 409A of the Internal Revenue Code.

Amounts deferred under the Plan are credited to accounts established in the participants' names and nominally invested in investment funds selected by the participants from the three available options. Participants' accounts are credited with a rate of return based on the nominal investment option or options selected. All of the available investment options are also options offered under the Company's Profit Sharing Plan. The nominal investment options currently available under the Plan provide participants with approximately the same returns as an investment in (i) the Company's common stock fund; (ii) a stable value fund; and/or (iii) an index fund based on the S&P 500 Index.

- *McDonald's Corporation Supplemental Profit Sharing and Savings Plan*

Prior to January 1, 2005, under the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, participants could defer amounts of compensation in excess of the Internal Revenue Code limits applicable to our Profit Sharing Plan. The Supplemental Plan allowed participants to defer a portion of their base salary up to certain percentages of base salary specified under the plan, and all or a portion of their TIP awards and long-term incentive awards. The nominal investment options under the Supplemental Plan are identical to those described above for the McDonald's Excess Benefit Plan. The Supplemental Plan distribution rules are as follows. Participants may elect to have distributions paid in a lump sum or in installments commencing April 1 following the year in which they terminate employment. If no election is made by December 31 of the year in which a participant terminates employment, payments will be in the form of a lump sum. All distributions must be completed no later than the 25th anniversary of the first payment date. In-service withdrawals are permitted as long as the participant's withdrawal election is made in the calendar year

prior to and at least six months in advance of the payment date. Participants may request a hardship withdrawal or accelerate the distribution of installment payments to meet a sudden and unexpected financial need, subject to approval of the Plan's officer committee and a forfeiture penalty of 10% of the amount so accelerated. At the end of 2004, the Company froze the Plan due to changes under Section 409A of the Internal Revenue Code, so that no new contributions or changes will be made to the Plan.

Executive Retention Plan

The ERP provides certain benefits to selected senior executives of the Company who remain employed with the Company as officers for a specified "retention period." Under the ERP, Messrs. Skinner and Paull may become entitled to certain benefits if they become "transition officers" under the Plan. Prior to his 62nd birthday, Mr. Paull may only become a transition officer with the consent of Mr. Skinner. Mr. Roberts became a transition officer on November 1, 2006 and is receiving the benefits described below. To receive benefits as a transition officer, the participant must enter into and comply with an agreement that includes a covenant not to compete, a covenant not to solicit employees, a nondisparagement covenant, a nondisclosure covenant and a release of claims. The benefits are generally the same for all participants, but with specific differences as noted below. If a participant's employment is terminated without "cause" by McDonald's during the retention period, he or she may become entitled to certain severance benefits as described under Potential payments on termination of employment or change in control.

Once a participant covered by this plan has completed his or her retention period, he or she may elect to enter the "transition period," which continues for the lesser of 18 months or a number of months equal to the participant's total years of service. This election can only be made if a participant has reached the age of 62 or with the consent of the CEO (or, in the case of the CEO, the Compensation Committee). As Mr. Skinner has reached the age of 62, this requirement will not apply to him. During the transition period, the participant must agree to devote substantially all of his or her normal business time and efforts to the business of the Company in an officer position. During the transition period, the participant may become entitled to receive (i) base salary at the highest rate received by the participant before the transition period; (ii) a target-level annual incentive for any calendar year or years that end during the transition period and a prorated target-level incentive for any partial year at the end of the transition period; and (iii) prorated performance-based payouts for any partial long-term incentive plan cycles at the end of the cycle. In addition, if Mr. Skinner were to enter the transition period and receive benefits under the ERP, the Company would provide him with an office and secretarial services during the transition period.

Participants who complete the transition period become eligible for a "continued employment period" of five years following the transition period. During this period, the participant must devote such time to the business of the Company as the Company may reasonably request. During the continued employment period, the participant may become entitled to receive (i) base salary at a rate equal to 35% of the base salary paid during the transition period (50% in the case of Mr. Skinner); and (ii) prorated performance-based payouts for any partial long-term incentive plan cycles at the end of the cycle. Participants will not receive annual or long-term incentives during the continued employment period.

During both the transition and continued employment periods, the participant would continue to participate in employee benefit plans, but would not be eligible to receive additional incentive compensation awards. Stock options and RSUs granted prior to the commencement of the transition period would, however, continue to vest and become exercisable in accordance with their original terms, consistent with the participant's treatment as a continuing employee of the Company as described above. During the transition and continued employment periods, a participant's employment may be terminated by the Company only for cause or disability.

The ERP will remain in effect until two years after the Company notifies all participants of its intention to terminate the plan. The Company does not intend to add any other employees to the ERP.

Potential payments on termination of employment or change in control

Our named executive officers would become entitled to certain payments and benefits, described below, in connection with a change in control of McDonald's and/or if their employment with the Company were to terminate in certain circumstances, including following a change in control of McDonald's.

- *Potential payments upon or in connection with a change in control*

> Equity incentive plans: awards granted on or after May 20, 2004. Under the Amended 2001 Plan, in the event of a "change in control" of McDonald's, all outstanding unvested awards granted on or after May 20, 2004 under the Amended 2001 Plan (other than awards subject to performance-based vesting conditions) automatically vest and become exercisable if (i) McDonald's common stock ceases to be publicly traded as a result of the change in control transaction; and (ii) the awards are not replaced by equivalent awards based on publicly traded stock of a successor entity. If the awards are replaced by equivalent awards, those replacement awards will vest if the grantee's employment with the Company is terminated for any reason other than "cause" within two years following the change in control. In addition, if the grantee's employment is terminated other than for "cause" within two years following the change in control, all outstanding options (whether or not they are replacement awards) will remain outstanding for not less than two years following the date of termination (or until the end of the original term of the award, if sooner).

A change in control is generally defined under the Amended 2001 Plan as either (i) the acquisition of 20% or more of our common stock or voting securities by a single purchaser or a group of purchasers acting together; (ii) the incumbent members of the Board (and certain new directors approved in a specified manner by those members) cease to constitute at least a majority of the Board as a result of an actual or threatened election contest; (iii) a significant merger or other business combination involving the Company; or (iv) a complete liquidation or dissolution of the Company.

> **Equity incentive plans: awards granted before May 20, 2004.** In accordance with the 2001 Omnibus Stock Ownership Plan prior to its amendment and restatement in 2004, which we refer to as the 2001 Plan, equity awards (other than awards subject to performance-based vesting conditions) granted before May 20, 2004 will immediately vest and (if applicable) become exercisable on a change in control. The definition of a "change in control" under the 2001 Plan is the same as the definition under the Amended 2001 Plan.

All unexercised options granted under the McDonald's Corporation 1975 Stock Ownership Option Plan, or 1975 Plan, or under the McDonald's Corporation 1992 Stock Ownership Incentive Plan, or 1992 Plan, will immediately vest and become exercisable on a change in control. A change in control is generally defined under the 1975 Plan and the 1992 Plan as either (i) the acquisition of 20% or more of our voting securities; (ii) the incumbent members of the Board (and certain new directors approved in a specified manner by those members) cease to constitute at least a majority of the Board within a two-year period; or (iii) approval by our stockholders of a significant merger, sale or similar transaction. In addition, all unexercised options granted under the 1992 Plan would vest and become immediately exercisable on approval by our stockholders of a plan of liquidation.

> **RSUs subject to performance-based vesting conditions.** All outstanding RSUs subject to performance-based vesting conditions will immediately vest upon a change in control and the target number of shares will be paid out, except to the extent that accelerated vesting of the RSUs would not comply with Section 409A of the Internal Revenue Code.

If a change in control had occurred on December 31, 2006 (as defined under each of the plans under which the named executive officers then held outstanding unvested awards), all of the outstanding awards held by the named executive officers as of that date would have been accelerated (in the case of awards granted on or after May 20, 2004 unless they were replaced with replacement awards) in accordance with the applicable plans. The equity awards held by the named executive officers as of December 31, 2006 are set forth in the Outstanding Equity Awards at 2006 Fiscal Year-End table beginning on page 26 of this Proxy Statement.

> **Change-in-control employment agreements.** The Company has entered into change-in-control employment agreements with some of its employees, including all of the named executive officers except Mr. Hennequin. These agreements provide that, on a change of control of the Company, the executives will be entitled to the benefits described below. An executive who also participates in the ERP must elect to receive severance benefits under either the ERP or these change-in-control agreements but not both. The agreements have an initial term of three years but are automatically extended in order to perpetually retain a two-year term until terminated by the Company with a minimum of two years' notice.

Subject to exceptions set out in the agreements, the definition of change in control under the agreements is generally the same as that of a change in control under the 2001 Plan and the Amended 2001 Plan.

The agreements provide generally that, during the three-year period following a change in control or "protected period," (i) the executive's position and authority may not be reduced; (ii) the executive's place of work may not be relocated by more than 30 miles; (iii) the executive's base salary may not be reduced; (iv) the executive's annual bonus opportunity may not be reduced and the annual bonus paid will not be less than the target annual bonus; and (v) the executive will continue to participate in employee benefit plans on terms not less favorable than before the change of control. In addition, within 30 days after a change of control, the Company will pay to each executive a prorated portion of that executive's annual bonus and of each outstanding long-term incentive plan award (both computed at the target levels) for the partial year or applicable long-term incentive plan period prior to the change of control, and the outstanding awards will be cancelled.

If the Company fails to comply with the above provisions following a change in control, the executive may terminate his or her employment for good reason at any time during the protected period.

If the executive terminates his or her employment for good reason or is terminated by the Company without cause at any time during the protected period, then, in addition to the executive's entitlement to receive accrued but unpaid salary, bonus, deferred compensation and other benefit amounts due on termination, the executive will be entitled to: (i) a lump-sum cash payment equal to three times the sum of the executive's base salary, annual bonus (computed at the target level) and contribution received under the Company's deferred compensation plan; (ii) a pro rata portion of the annual bonus (computed at the target level) for the year of termination, reduced (but not below zero) by the amount of annual bonus paid to the executive for that year; (iii) continued medical, life insurance, fringe and other benefits for three years after the termination; and (iv) a lump-sum cash payment for any sabbatical leave that has been earned but not yet taken. In addition, for purposes of determining the executive's eligibility for any available post-retirement medical benefits, the executive will be treated as having three additional years of service and being three years older. The executive will be eligible for these benefits subject to execution of an agreement that includes a covenant not to compete, a covenant not to solicit employees, a nondisclosure covenant and a release of claims.

Up to the limitations specified in the agreements, the Company will reimburse an executive on an after-tax (i.e., grossed-up) basis for any parachute excise taxes incurred by that executive because of any payments or other amounts under the agreement or otherwise provided which are considered to be contingent upon a change of control. If the aggregate after-tax amount of benefits to which an executive becomes entitled under his or her change-in-control employment agreement, including tax gross-ups, is not more than 110% of what the executive would receive if his or her benefits were reduced to a level that would not be subject to parachute excise taxes, the executive will not be entitled to receive a gross-up and the aggregate amount of benefits to which he or she is entitled will be reduced to the greatest amount that can be paid without triggering parachute excise taxes.

The value of the benefits that would be payable to the named executive officers under these agreements if the named executive officers were terminated without cause or resigned with good reason in the protected period following a change of control of McDonald's on December 31, 2006 is estimated to be as set forth in the table below. Pro rata bonus payments in respect of 2006 and pro rata long-term incentive awards are not included in the table because if the named executive officers had terminated employment on December 31, 2006 they would have earned these awards in full pursuant to the terms of the TIP and CPUP, respectively. Accordingly, the amount of pro rata awards they would have been entitled to under the change-of-control employment agreements would be zero.

	Severance payment (3 x base, bonus and Company contribution to deferred compensation plan) ($)	*Benefit continuation ($)*	*Sabbatical ($)*	*Tax gross-up payments ($)*	*Total ($)*
James A. Skinner	$8,791,200	$106,665	$184,615	$5,489,425	$14,571,905
Matthew H. Paull	4,020,975	109,846	106,154	2,881,604	7,118,579
Ralph Alvarez	5,994,000	100,602	138,462	6,816,182	13,049,246
Timothy J. Fenton	2,913,750	107,358	N/A	1,281,211	4,302,319
Michael J. Roberts	6,493,500	113,403	N/A	5,387,670	11,994,573

In the case of the death or disability of an executive during the protected period, the executive or his estate will be entitled to receive accrued but unpaid salary, bonus, deferred compensation and other benefit amounts due at the time of such death or disability at levels provided to his peer employees and at least as favorable as those in place immediately prior to the change of control.

If (i) the Company terminates an executive for cause following a change of control; (ii) an executive voluntarily terminates employment without good reason following a change of control; or (iii) an executive who is otherwise eligible to receive severance benefits fails to execute the noncompetition and release agreement, then that executive will receive only a lump-sum payment of accrued but unpaid salary, bonus, deferred compensation and other benefit amounts due at the time of the termination. The value of the benefits that would be payable to the named executive officers or their estates if their employment were to terminate following a change of control under any of these circumstances, assuming that the named executive officers' employment terminated on December 31, 2006 and that their compensation and benefit arrangements following the change of control were no less favorable than they were before the change of control, would be the same as those described in the table above with respect to termination of employment due to death or disability.

- *Potential payments upon termination of employment (other than following a change in control)*

> **McDonald's Corporation Severance Plan.** Under the McDonald's Corporation Severance Plan, Messrs. Alvarez and Fenton would receive severance benefits if they were terminated as a result of a covered termination, which includes: termination of employment by the Company without "cause," subject to the participant's execution of a release agreement; termination due to a reduction in work force; and elimination of the participant's position. The benefits payable under the Severance Plan consist of (i) continued salary at the same rate as in effect immediately prior to termination; and (ii) continued medical and dental benefits at the same cost as the participant paid for such benefits prior to termination, during a period based on the participant's length of service with the Company and level of seniority. In addition, each eligible named executive officer, if terminated in a covered termination, would receive a lump sum payment equal to a pro rata portion of his bonus under the TIP for the year in which termination occurs, a pro-rated payment under the CPUP (if approved by the plan administrator and the Committee), a lump-sum cash payment for any sabbatical leave that he has earned but not yet taken, and outplacement assistance.

Messrs. Skinner, Paull and Roberts are not eligible to participate in the Severance Plan because they participate in the ERP. Mr. Hennequin is not eligible to participate in the Severance Plan because he is not a U.S. employee. The Severance Plan would not apply to any termination of a named executive officer's employment following a change of control of McDonald's because employees who are covered by a change-of-control employment agreement with the Company are not eligible to receive benefits under the Severance Plan for such a termination.

The value of the benefits that would be payable to the named executive officers who are eligible to participate in the Severance Plan if their employment had terminated in a covered termination under the plan on December 31, 2006 would be as set forth in the table below. Pro rata bonus payments in respect of 2006 are not included in the table because if the named executive officers had terminated employment on December 31, 2006, they would have earned their full annual bonus payments under the TIP and, accordingly, the amount of pro rata bonus they would have been entitled to under the severance plan would be zero.

	Salary continuation ($)	*Benefit continuation ($)*	*Other (sabbatical and outplacement) ($)*	*Total ($)*
Ralph Alvarez	$450,000	$38,233	$163,462	$651,695
Timothy J. Fenton	500,000	26,095	25,000	551,095

› **Severance benefits under the ERP.** Messrs. Skinner and Paull, who are participants in the ERP (the general terms of which are described on page 29 of this Proxy Statement) and are currently in the retention period under the ERP, would be entitled to certain benefits if their employment were terminated by the Company during the retention period for any reason other than death, disability or "cause." In addition, Mr. Skinner has the right to terminate his employment for "good reason" at any time during his retention and transition periods and receive severance benefits.

The severance benefits under the plan consist of (i) accrued but unpaid base salary and any annual incentive earned for prior years that has not been paid; (ii) an amount equal to the present value of salary and target-level incentives that would have been payable to the participant during his transition period and the present value of salary that would have been payable to the participant during the remainder of his continued employment period; and (iii) an amount equal to the estimated value of the participant's health and welfare benefits for the remainder of the transition and continued employment periods. Participants' receipt of these amounts is subject to their execution of an agreement that includes a covenant not to compete, a covenant not to solicit employees, a nondisparagement covenant, a nondisclosure covenant and a release of claims.

The value of the benefits that would be payable to Messrs. Skinner and Paull under the ERP if their employment had terminated on December 31, 2006 in a manner that entitled them to severance benefits under the Plan is estimated to be as follows:

	Present value of salary continuation and target-level incentive awards in transition period ($)	*Present value of salary continuation in continued employment period ($)*	*Present value of continued benefits in transition and continued employment periods ($)*	*Total ($)*
James A. Skinner	$3,818,584	$2,484,749	$71,662	$6,374,995
Matthew H. Paull	1,746,568	1,000,111	77,588	2,824,267

If the employment of a participant in the ERP were to be terminated during the retention period by reason of the participant's death or disability, the participant or his estate would be entitled to receive: (i) accrued but unpaid base salary and annual incentive awards; and (ii) payment or provision of death or disability benefits, as applicable, equal to the benefits provided by the Company to the estates and beneficiaries of other employees of the Company serving at a comparable level. If the participant's employment were to be terminated for "cause," he would be entitled to receive only accrued but unpaid base salary and annual incentive awards and no other benefits.

In addition to these benefits, any outstanding unvested stock options held by Mr. Skinner that would have vested within the five years following his termination would immediately vest and would remain exercisable for five years, and any outstanding unvested stock options held by Mr. Paull that would have vested within the three years following his termination would immediately vest and would remain exercisable for three years. The outstanding stock options held by Messrs. Skinner and Paull as of December 31, 2006, which would have been accelerated had their employment terminated on that date in a manner that entitled them to accelerated vesting under the ERP, are set forth in the Outstanding Equity Awards at 2006 Fiscal Year-End table on page 26 of this Proxy Statement.

› **Severance and retirement benefits in France (Mr. Hennequin).** Mr. Hennequin is not eligible to participate in the Severance Plan or the ERP, but is eligible for limited severance benefits under the applicable collective bargaining agreement in France. Under the collective bargaining agreement, if Mr. Hennequin had been terminated for other than gross or willful misconduct (as defined under French law) on December 31, 2006 he would have been entitled to a severance payment, based on his years of service with the Company, approximately equal to his 2006 annual compensation (including his base salary, TIP award and company car) for 6.6 months, or approximately $824,914. Mr. Hennequin would also have been entitled to be paid during a three-month notice period, whether or not he worked during the notice period. The payment for the notice period would have been approximately $372,212.

If Mr. Hennequin's employment with the Company had terminated on December 31, 2006 due to his retirement, he would have been entitled to two months of base salary, or approximately $89,071.

> **Effect of termination of employment under equity incentive plans.** Outstanding RSUs and stock options held by the named executive officers are generally forfeited in connection with termination of employment, with stock options that are vested at the time of termination remaining outstanding and exercisable for 90 days except if employment is terminated for cause. In connection with certain terminations, however, RSUs and options are subject to accelerated vesting and/or will remain outstanding for a period following termination, as specified in the applicable plans. The provisions under these plans regarding termination of employment are summarized below.

Stock options. If a named executive officer retires, certain stock options will remain outstanding, and vesting of certain stock options will be accelerated, depending on the named executive officer's age and years of service at the time termination, as specified in the applicable plan. If a named executive officer's employment is terminated by reason of death or disability, unvested stock options will be accelerated and all options will remain outstanding and exercisable for three years following termination of employment. If employment is terminated for cause, all stock options are immediately forfeited. Certain stock options may remain outstanding, and vesting of certain stock options may be accelerated, in other circumstances depending on the circumstances and as specified under the terms of the applicable plan; such circumstances may include termination by the Company without cause, termination due to job elimination or disaffiliation of a subsidiary or division of McDonald's, or if the named executive officer leaves to become an owner-operator of a McDonald's restaurant. In the case of options granted under the Amended 2001 Plan, the 2001 Plan or the 1992 Plan, if a named executive officer's employment terminates after age 60 (except in the case of termination for cause or due to death, disability or retirement), options that are vested at the time of termination will remain outstanding for one year.

RSUs. If a named executive officer's employment is terminated due to retirement in certain circumstances, by reason of the named executive officer's death or disability or under "special circumstances" (which may include termination by the Company without cause, termination due to job elimination or disaffiliation of a subsidiary or division of McDonald's, or if the named executive officer leaves to become an owner-operator of a McDonald's restaurant), a pro rata portion of outstanding RSU awards will vest, based on the portion of the vesting period that has elapsed prior to termination of employment, and will be paid out on or following termination of employment as specified in the applicable plan. If the RSUs are subject to performance-based vesting conditions, the pro rata portion that vests will be paid out at the end of the performance cycle based on actual results. If employment is terminated for cause, all RSUs are forfeited.

> **Deferred compensation.** Following their separation from service with the Company for any reason, the named executive officers would receive distributions from their accounts under the Excess Benefit and Deferred Bonus Plan and the Supplemental Plan in accordance with their elected distribution schedules, as described on page 28 of this Proxy Statement.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934 requires our Directors, executive officers and persons who own more than 10% of our common stock to file reports of their ownership and changes in ownership of our common stock with the SEC. Our employees prepare these reports for our Directors and executive officers on the basis of information obtained from them and from Company records. Based on information available to us, we believe that all reports required by Section 16(a) of the Exchange Act to be filed by our Directors, executive officers and greater than 10% owners during the last fiscal year were filed on time. However, reports regarding two cash distributions made during 2005 with respect to stock equivalent units credited to Director Stone's account under our Directors' Deferred Compensation Plan were filed on May 8, 2006 when we determined that those distributions were not previously reported as required.

Transactions with related persons, promoters and certain control persons

Policies and procedures for related person transactions

The McDonald's System has more than 31,000 restaurants worldwide, many of which are independently owned and operated. Within this extensive System, it is not unusual for our business to touch many companies in many industries, including suppliers of food and other products and security systems. The Board of Directors is responsible for the oversight and approval (or ratification) of any transaction, relationship or arrangement in which the Company is a participant and that involves Board members, our executive officers, beneficial owners of more than 5% of our common stock, their immediate family members, domestic partners and companies in which they have a material interest. We refer to these as related person transactions and to the persons or entities involved as related persons.

The Board has adopted a policy that sets out procedures for the reporting, review and ratification of related person transactions. The policy operates in conjunction with other aspects of the Company's compliance program, such as its Standards of Business Conduct and Code of Conduct for Directors, which require Directors and employees to report any circumstances that may create or appear to create a conflict between the interests of the related person and those of the Company, regardless of the amount involved. Our Directors and executive officers must also periodically confirm information about related person transactions, and management reviews its books and records and makes other inquiries as appropriate to confirm the existence, scope and terms of related person transactions.

Under the Board's policy, the Audit Committee evaluates related person transactions for purposes of recommending to the disinterested members of the Board that the transactions are fair, reasonable and within Company policies and practices and should be approved or ratified.

The Board has considered certain types of potential related person transactions and pre-approved them as not presenting material conflicts of interest. Those transactions include (a) compensation paid to Directors and executive officers that has been approved by the Board or the Compensation Committee, as applicable; (b) Company contributions to Ronald McDonald House Charities, Inc. and certain other contributions made in limited amounts to other charitable or not-for-profit organizations; and (c) transactions in which the related person's interest arises solely from ownership of the Company's common stock and all holders of the common stock receive the same benefit on a pro rata basis. The Audit Committee considers the appropriateness of any related person transaction not within these pre-approved classes in light of all relevant factors and the controls implemented to protect the interests of McDonald's and its shareholders, including:

- the benefits of the transaction to the Company;
- the terms of the transaction and whether they are arm's-length and in the ordinary course of business for both companies;
- the direct or indirect nature of the related person's interest in the transaction;
- the size and expected duration of the transaction; and
- other facts and circumstances that bear on the materiality of the related person transaction under applicable law and listing standards.

Related person transactions involving Directors are also subject to Board approval or ratification when so required under Delaware law.

Related person transactions

In 2006, the Company and its subsidiaries purchased approximately $1.1 million worth of paper and other printed products (principally meat, bread and biscuit liners, trayliners, french fry bags, hash brown bags and bag stuffers) from Schwarz Paper Company. Director McKenna is Chairman of Schwarz Paper Company, as well as a 44% shareholder of Schwarz. Members of Director McKenna's family are also shareholders of Schwarz. Schwarz's business with the Company and its subsidiaries represents less than 1% of Schwarz's total revenues. The Company believes that these purchases were made on terms at least as favorable as would have been available from other parties and intends to continue its dealings with Schwarz in 2007 on similar terms.

In 2006, the Company and its subsidiaries purchased approximately $9.5 million worth of salad packaging, coffee and soft drink cups and parfait cups from Prairie Packaging, Inc. Director Stone is a director of Prairie Packaging as well as a 6.39% shareholder. In addition, Mr. Stone's children are shareholders of Prairie Packaging. The Company believes that these purchases, which represent less than 2.1% of the revenues of Prairie Packaging, were made on terms at least as favorable as would have been available from other parties, and intends to continue its dealings with Prairie Packaging in 2007 on similar terms.

In 2006, Inter-Con Security Systems, Inc., provided physical security services for the Company's home office campus. Director Hernandez is the Chairman and Chief Executive Officer, as well as a 25.99% shareholder of Inter-Con. Payments by the Company to Inter-Con for 2006 for such services totaled $1.0 million. The Company believes that these services, which represent less than 1% of the revenues of Inter-Con, were made on terms at least as favorable as would have been available from other parties, and intends to continue its dealings with Inter-Con in 2007 on similar terms.

In 2006, Mr. Stephen Stratton, a former employee of the Company and the brother of Mr. Jeffrey Stratton, Corporate Executive Vice President and Chief Restaurant Officer, became a franchisee of McDonald's USA, LLC, a subsidiary of the Company (McDonald's US). Mr. Stephen Stratton purchased an existing McDonald's restaurant from McDonald's Restaurants of Kentucky, Inc., a subsidiary of the Company, and in that regard paid McDonald's Restaurants of Kentucky, Inc. the purchase price of the restaurant and the value of the existing inventories in the restaurant at the time of purchase. He paid McDonald's US a technology fee and reimbursed McDonald's US for real estate and property taxes that were paid before he acquired the restaurant. Mr. Stephen Stratton was also awarded the franchise for a new McDonald's restaurant and in that regard paid McDonald's US a franchise fee and amounts for operator improvements for the restaurant. Mr. Stephen Stratton also paid rent and service fee obligations under the terms of his franchise agreements with McDonald's US for both of the restaurants. These transactions, which totaled $614,821 in 2006, were made on an arm's-length basis, consistent with customary policies and were approved by the CEO and COO.

Mr. Jeffrey Stratton's son-in-law, Jeff Ringel, is employed as a Senior Director of Business Process Improvements of the Perseco business unit of HAVI Global Solutions. HAVI Global Solutions and its business units (HGS) have been significant suppliers of products and services to the McDonald's System since 1975, and HGS has advised the Company that virtually all of its business is attributable to the McDonald's System. In 2006, the Company and its subsidiaries made aggregate payments to HGS of approximately $444,216,000. Mr. Ringel is employed by HGS—Perseco on an at-will basis, and his compensation is determined at the discretion of HGS.

AUDIT COMMITTEE REPORT

Dear Fellow Shareholders:

The Audit Committee is composed of six Directors, each of whom meets the independence and other requirements of the New York Stock Exchange. As stated previously, Enrique Hernandez, Jr., Cary D. McMillan, and Roger W. Stone qualify as the "audit committee financial experts." The Committee has the responsibilities set out in its charter, which has been adopted by the Board of Directors and is reviewed annually.

Management is primarily responsible for the Company's financial statements, including the Company's internal control over financial reporting. Ernst & Young LLP (Ernst & Young), the Company's independent auditors, is responsible for performing an audit of the Company's annual consolidated financial statements in accordance with generally accepted accounting principles (GAAP) and for issuing a report on those statements. Ernst & Young also reviews the Company's interim financial statements in accordance with Statement on Auditing Standards No. 100 (interim financial information). The Committee oversees the Company's financial reporting process and internal control structure on behalf of the Board of Directors. The Committee met ten times during 2006, including meeting regularly with Ernst & Young and the internal auditors, both privately and with management present.

In fulfilling its oversight responsibilities, the Committee reviewed and discussed with management and Ernst & Young the audited and interim financial statements, including Management's Discussion and Analysis, included in the Company's Reports on Form 10-K and Form 10-Q. These reviews included a discussion of:

- critical accounting policies of the Company;
- the reasonableness of significant financial reporting judgments made in connection with the financial statements, including the quality (and not just the acceptability) of the Company's accounting principles;
- the clarity and completeness of financial disclosures;
- the effectiveness of the Company's internal control over financial reporting, including management's and Ernst & Young's reports thereon, the basis for the conclusions expressed in those reports and changes made to the Company's internal control over financial reporting during 2006;
- items that could be accounted for using alternative treatments within GAAP, the ramifications thereof and the treatment preferred by Ernst & Young;
- the annual management letter issued by Ernst & Young, management's response thereto and other material written communications between management and Ernst & Young;
- unadjusted audit differences noted by Ernst & Young during its audit of the Company's annual financial statements; and
- the potential effects of regulatory and accounting initiatives on the Company's financial statements.

In connection with its review of the Company's annual consolidated financial statements, the Committee also discussed with Ernst & Young other matters required to be discussed with the auditors under Statement on Auditing Standards No. 61, as modified or supplemented (communication with audit committees) and those addressed by Ernst & Young's written disclosures and its letter provided under Independence Standards Board Standard No. 1, as modified or supplemented (independence discussions with audit committees).

The Committee is responsible for the engagement of the independent auditors and appointed Ernst & Young to serve in that capacity during 2006 and 2007. In that connection, the Committee:

- reviewed Ernst & Young's independence from the Company and management, including Ernst & Young's written disclosures described above;
- reviewed periodically the level of fees approved for payment to Ernst & Young and the pre-approved non-audit services it has provided to the Company to ensure their compatibility with Ernst & Young's independence; and
- reviewed Ernst & Young's performance, qualifications and quality control procedures.

Among other matters, the Committee also:

- reviewed the scope of and overall plans for the annual audit and the internal audit program;
- consulted with management and Ernst & Young with respect to the Company's processes for risk assessment and risk management;
- reviewed the adequacy of certain of the Company's financial policies;
- reviewed and approved the Company's policy with regard to the hiring of former employees of the independent auditors;
- reviewed and approved the Company's policy for the pre-approval of audit and permitted non-audit services by the independent auditors;
- received reports pursuant to our policy for the submission and confidential treatment of communications from employees and others about accounting, internal controls and auditing matters;
- reviewed with management the scope and effectiveness of the Company's disclosure controls and procedures, including for purposes of evaluating the accuracy and fair presentation of the Company's financial statements in connection with certifications made by the CEO and CFO;
- reviewed significant legal developments and the Company's processes for monitoring compliance with law and Company policies; and
- reviewed the Company's related person transactions.

Based on the reviews and discussions referred to above, the Committee recommended to the Board of Directors the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006 for filing with the SEC.

Respectfully submitted,
The Audit Committee

Enrique Hernandez, Jr., *Chairperson*
Hall Adams, Jr.
Walter E. Massey
Cary D. McMillan
Sheila A. Penrose
Roger W. Stone

Policy for pre-approval of audit and permitted non-audit services

The Audit Committee has implemented a policy for the pre-approval of all audit and permitted non-audit services proposed to be provided to the Company by its independent auditors. Under the policy, the Audit Committee may pre-approve engagements on a case-by-case basis or on a class basis if the relevant services are predictable and recurring.

Pre-approvals for classes of services are granted at the start of each fiscal year. In considering pre-approvals on a class basis, the Audit Committee reviews a description of the scope of services falling within each class and imposes specific budgetary guidelines that are largely based on historical costs. Pre-approvals granted on a class basis are effective for the applicable fiscal year.

Any audit or permitted non-audit service that is not included in an approved class, or for which total fees are expected to exceed the relevant budgetary guideline, must be pre-approved on an individual basis. Pre-approval of any individual engagement may be granted not more than one year before commencement of the relevant service. Pre-approvals of services that may be provided over a period of years must be reconsidered each year in light of all the facts and circumstances, including compliance with the pre-approval policy and the compatibility of the services with the auditors' independence.

The Corporate Controller monitors services provided by the independent auditors and overall compliance with the pre-approval policy. The Corporate Controller reports periodically to the Audit Committee about the status of outstanding engagements, including actual services provided and associated fees, and must promptly report any noncompliance with the pre-approval policy to the Chairperson of the Audit Committee.

The complete policy is available on the Company's website at www.governance.mcdonalds.com.

Auditor fees and services

The following table presents fees billed for professional services rendered for the audit of the Company's annual financial statements for 2006 and 2005 and fees billed for other services provided by our independent auditors in each of the last two years:

In millions	**2006**	*2005*
Audit fees *(1)*	**$10.8**	$10.5 *(4)*
Audit-related fees *(2)*	**.3**	.3
Tax fees *(3)*	**1.6**	1.7 *(4)*
All other fees	**–**	–
	$12.7	$12.5

(1) Fees for services associated with the annual audit (including internal control reporting under Section 404 of the Sarbanes-Oxley Act), statutory audits required internationally, reviews of the Company's Quarterly Reports on Form 10-Q, and accounting consultations.

(2) Fees for employee benefit plan audits and certain attestation services not required by statute or regulation.

(3) Primarily fees for tax compliance in various international markets including expatriate tax services.

(4) The 2005 fees were adjusted by $0.4 million for audit fees and $0.1 million for tax fees related to 2005 services billed in 2006.

Record date and voting at the Annual Shareholders' Meeting
Shareholders owning McDonald's common stock at the close of business on March 26, 2007 (the record date), may vote at the 2007 Annual Shareholders' Meeting. On that date, 1,194,414,330 shares of common stock were outstanding. Each share is entitled to one vote on each matter to be voted upon at the Annual Shareholders' Meeting.

Most shareholders have a choice of voting over the Internet, by telephone or by using a traditional proxy card. Refer to your proxy or voting instruction card to see which options are available to you and how to use them.

The Internet and telephone voting procedures are designed to authenticate shareholders' identities and to confirm that their instructions have been properly recorded.

If you properly sign and return your proxy card or complete your proxy via the telephone or the Internet, your shares will be voted as you direct. If you sign and return your proxy but do not specify how you want your shares voted, they will be voted FOR the election of all nominees for Director as set forth under "Election of Directors," FOR the approval of the independent auditors and AGAINST the shareholder proposals. You may revoke your proxy and change your vote at any time before the Annual Shareholders' Meeting by submitting written notice to the Secretary, by submitting a later dated and properly executed proxy (including by means of a telephone or Internet vote) or by voting in person at the Annual Shareholders' Meeting.

All votes cast at the Annual Shareholders' Meeting will be tabulated by Computershare Trust Company, N.A. (Computershare), which has been appointed independent inspector of election. Computershare will determine whether or not a quorum is present.

With respect to the election of Directors, shareholders may (a) vote "for" each of the nominees; (b) vote "against" each of the nominees; or (c) abstain from voting on the election of one or more of the nominees. To be elected, the nominee for Director must receive more votes "for" than "against" his election. Abstentions will be treated as shares present for purposes of determining a quorum but will have no effect on the outcome of the election of each Director.

With respect to the approval of the independent auditors and the shareholder proposals, shareholders may (a) vote in favor of the matter; (b) vote against the matter; or (c) abstain from voting on the matter. Computershare will treat abstentions as shares present for purposes of determining a quorum. Since the affirmative vote of a majority of the shares represented at the meeting and entitled to vote is required for approval of these matters, an abstention will have the effect of a vote against approval.

Under NYSE rules, the proposals to elect Directors and to approve the appointment of independent auditors are considered "discretionary" items. This means that brokerage firms may vote in their discretion on these matters on behalf of clients who have not furnished voting instructions at least 15 days before the date of the Annual Shareholders' Meeting.

In contrast, the shareholder proposals presented are "non-discretionary" items. This means brokerage firms that have not received voting instructions from their clients on these matters may not vote on these proposals. These so-called "broker non-votes" will not be considered in determining the number of votes necessary for approval and, therefore, will have no effect on the outcome of the votes for these proposals.

Proxy solicitation
The 2007 Proxy Statement and proxy card were mailed to shareholders beginning on or about April 9, 2007 in connection with the solicitation of proxies by the Board of Directors to be used at the 2007 Annual Shareholders' Meeting. The cost of soliciting proxies will be paid by the Company. The Company has retained Innisfree M&A Incorporated to aid in the solicitation at a fee of $15,000 plus reasonable out-of-pocket expenses. Proxies also may be solicited by employees and Directors of the Company by mail, telephone, facsimile, e-mail or in person.

Confidential voting
It is the Company's policy to protect the confidentiality of shareholder votes. Throughout the voting process, your vote will not be disclosed to the Company, its Directors, officers or employees, except to meet legal requirements or to assert or defend claims for or against the Company or except in those limited circumstances where (1) a proxy solicitation is contested; or (2) you authorize disclosure. The inspector of election has been and will remain independent of the Company.

Nothing in this policy prohibits you from disclosing the nature of your vote to the Company, its Directors, officers or employees, or impairs voluntary communication between you and the Company, nor does this policy prevent the Company from ascertaining which shareholders have voted or from making efforts to encourage shareholders to vote.

Executive officers

The following list sets forth the names of our executive officers, their ages and their positions.

Ralph Alvarez
Age: 51. President and Chief Operating Officer

Jose Armario
Age: 47. President, McDonald's Latin America

Peter J. Bensen *(effective April 1, 2007)*
Age: 44. Corporate Senior Vice President-Controller

Mary H. Dillon
Age: 45. Corporate Executive Vice President-Global Chief Marketing Officer

Timothy J. Fenton
Age: 49. President, McDonald's Asia/Pacific/Middle East/Africa

Richard Floersch
Age: 49. Corporate Executive Vice President and Chief Human Resources Officer

Denis Hennequin
Age: 48. President, McDonald's Europe

Matthew H. Paull
Age: 55. Corporate Senior Executive Vice President and Chief Financial Officer

David M. Pojman *(through March 31, 2007)*
Age: 47. Corporate Senior Vice President-Controller

Gloria Santona
Age: 56. Corporate Executive Vice President, General Counsel and Secretary

James A. Skinner
Age: 62. Vice Chairman and Chief Executive Officer

Jeffrey P. Stratton
Age: 51. Corporate Executive Vice President-Chief Restaurant Officer

Donald Thompson
Age: 44. President, McDonald's USA

McDonald's Corporation Annual Report on Form 10-K, other reports and policies

Shareholders may access financial and other information on the investor section of the Company's website at www.investor.mcdonalds.com. Also available, free of charge, are copies of the Company's Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC. Copies of financial and other information are available free of charge by calling 1-630-623-2553 or by sending a request to McDonald's Corporation, Investor Relations Service Center, Department 300, One McDonald's Plaza, Oak Brook, IL 60523-1928.

Also posted on McDonald's website are the Company's Corporate Governance Principles; the charters of McDonald's Audit Committee, Compensation Committee, Governance Committee, Corporate Responsibility Committee, Finance Committee and Executive Committee; the Company's Standards of Business Conduct; the Code of Ethics for the Chief Executive Officer and Senior Financial Officers; the Code of Conduct for the Board of Directors; the Policy for Pre-Approval of Audit and Permitted Non-Audit Services and the Company's By-Laws. Copies of these documents are also available free of charge by calling 1-630-623-2553 or by sending a request to McDonald's Corporation, Investor Relations Service Center, Department 300, One McDonald's Plaza, Oak Brook, IL 60523-1928.

Householding of Annual Meeting materials

We are sending only one copy of the Company's Annual Report, and Notice of Annual Meeting and Proxy Statement to shareholders who share the same last name and address unless they have notified us that they wish to continue receiving multiple copies. This method of delivery, known as "householding," will help ensure that shareholder households do not receive multiple copies of the same document, helping to reduce our printing and postage costs, as well as saving natural resources.

If you are a MCDirect Shares participant, hold McDonald's stock certificates or have book-entry shares at Computershare, you can opt out of the householding practice by calling 1-800-621-7825 (toll-free) from the U.S. and Canada, or 1-312-360-5129 (collect) from other countries, or writing to Computershare Trust Company, N.A., Attn.: McDonald's Shareholder Services, 250 Royall Street, Canton, MA 02021. If you would like to opt out of this practice and your shares are held in street name, please contact your broker or bank.

If you would like additional copies of the Annual Report and/or Notice of Annual Meeting and Proxy Statement, please go to www.investor.mcdonalds.com or call 1-630-623-2553. If you are receiving multiple copies of the Annual Report and/or Notice of Annual Meeting and Proxy Statement at your household and would prefer to receive a single copy of these materials, please contact Computershare at the above numbers or address. If your shares are held in street name, contact your bank or broker.

Appendix A. STANDARDS ON DIRECTOR INDEPENDENCE

As stated in McDonald's Corporation's Corporate Governance Principles, it is the policy of the Board of Directors that a substantial majority of Directors shall be independent of management. An independent Director is one who is free of any material relationship with the Company or its management. Each Director's independence status shall be disclosed annually in the proxy statement for the Annual Meeting of Shareholders.

The Board of Directors shall determine whether a Director is independent each year after reviewing pertinent facts and circumstances and taking into consideration all applicable laws, regulations and stock exchange listing requirements. In making its determination of independence, the Board of Directors shall also apply the following standards:

- A Director who is an employee, or whose immediate family member is an executive officer, of the Company may not be deemed independent until three years after the end of such employment relationship. As used herein, "executive officer" has the same meaning as the term "officer" in Rule 16a-1(f) under the Securities Exchange Act of 1934.
- A Director who receives, or whose immediate family member receives, more than $100,000 during any 12-month period during the preceding three years in direct compensation from the Company, other than Director and Committee fees and deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), may not be deemed independent. (Compensation received by an immediate family member for service as a non-executive employee of the Company will not be considered in determining independence under this test.)
- A Director who is a partner or employee of a firm that is the Company's internal or external auditor may not be deemed independent.
- A Director whose immediate family member is an employee of the Company's internal or external auditor and participates in that firm's audit, assurance or tax compliance (but not tax planning) practice may not be deemed independent.
- A Director who was, or whose immediate family member was (but is no longer) a partner or employee of the Company's internal or external auditor firm and personally worked on the Company's audit within that time may not be deemed independent until three years after the end of such employment relationship.
- A Director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the Company's current executive officers serve on that company's compensation committee may not be deemed independent until three years after the end of such service or the employment relationship.
- A Director who is an executive officer or employee, or whose immediate family member is an executive officer, of a company (including a tax-exempt organization) that makes payments to, or receives payments from, the Company for property or services in an amount which, in any single fiscal year, exceeds the greater of $1 million or 2% of such other company's consolidated gross revenues, may not be deemed independent until three years after falling below that threshold.
- A Director who provides professional services (including, but not limited to, accounting, consulting, legal, investment banking or financial advisory services) to the Company within the preceding twelve-month period may not be deemed independent.
- Annual contributions made by the Company in excess of $200,000 to any charitable, educational, civic or other tax-exempt organization (excluding those made under the Company's matching gift program) on which a Director serves as a director, trustee or executive officer will require consideration by the disinterested Directors and shall not be permitted if the contribution may impair, or appear to impair, the Director's ability to make independent judgments.

For purposes of these standards, the terms:

- "Company" means McDonald's Corporation and any of its consolidated subsidiaries; and
- "immediate family member" means a person's spouse, parents, children, siblings, mothers- and fathers-in-law, sons- and daughters-in-law, brothers- and sisters-in-law and anyone (other than domestic employees) sharing a person's home, but excluding any person who is no longer an immediate family member as a result of legal separation or divorce, or death or incapacitation.
- To help maintain the independence of the Board, all Directors are required to deal at arm's-length with the Company and to disclose circumstances material to the Director that might be perceived as a conflict of interest. As provided in the Corporate Governance Principles, if a change in circumstance affects an independent Director's continuing independence, that Director shall submit his or her resignation to the Chair of the Governance Committee. The Governance Committee shall determine whether to accept or reject such resignation.

Appendix B. BY-LAW PROVISIONS RELATING TO DIRECTOR NOMINEES

Article II, Section 6. Submission of information by Director nominees

To be eligible to be a nominee for election or re-election as a Director of the Corporation, a person must deliver to the Secretary at the principal executive offices of the Corporation the following information:

(i) a statement whether such person, if elected or re-elected as a Director, intends to tender, promptly following such person's election or re-election, an irrevocable resignation effective upon such person's failure to receive the required vote for re-election at the next meeting at which such person would face re-election and upon acceptance of such resignation by the Board of Directors, in accordance with a publicly disclosed policy adopted by the Board of Directors in this regard;

(ii) a statement whether such person is a party to any agreement, arrangement or understanding with, or has given any commitment or assurance to, any person or entity as to how such person will act or vote as Director on any issue or question (a "Voting Commitment") that has not been disclosed to the Corporation or any Voting Commitment that could limit or interfere with such person's ability to comply with such person's fiduciary duties as Director under applicable law; and whether such person, if elected or re-elected, intends to refrain in the future from entering into such a Voting Commitment that would not be disclosed to the Corporation or that could limit or interfere with such person's ability to comply with such person's fiduciary duties as Director under applicable law;

(iii) a statement whether such person is a party to any agreement, arrangement or understanding with any person or entity other than the Corporation with respect to any direct or indirect compensation, reimbursement or indemnification in connection with service or action as a Director that has not been disclosed to the Corporation; and whether such person, if elected or re-elected as a Director, intends to refrain in the future from entering into any such non-disclosed agreement, arrangement or understanding; and

(iv) a statement whether such person, if elected or re-elected as a Director, intends to comply with all publicly disclosed policies and guidelines of the Corporation with respect to codes of conduct, corporate governance, conflict of interest, confidentiality, stock ownership and trading applicable to Directors of the Corporation.

The Corporation may require any proposed nominee to furnish such other information as may reasonably be required by the Corporation to determine the eligibility of such proposed nominee to serve as an independent Director of the Corporation or that could be material to a reasonable stockholder's understanding of the independence, or lack thereof, of such nominee.

Article II, Section 11. Nomination and stockholder business

(A) Annual Meetings of Stockholders–(1) Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the stockholders at an annual meeting of stockholders may be made (a) pursuant to the Corporation's notice of meeting, (b) by or at the direction of the Board of Directors, or (c) by any stockholder of the Corporation who (i) is a stockholder of record at the time of giving notice provided for in this Section 11 and at the time of the annual meeting of stockholders; (ii) is entitled to vote at the meeting; and (iii) complies with the notice procedures set forth in this Section 11.

(2) For nominations or other business to be properly brought before an annual meeting by a stockholder pursuant to clause (c) of paragraph (A)(1) of this Section 11, such business, as determined by the Chairman of the meeting, must be a proper subject for stockholder action under Delaware corporation law, and the stockholder must have given timely notice of such nomination or other business in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered to the Secretary at the principal executive offices of the Corporation not earlier than the close of business on the one hundred twentieth (120th) day and not later than the close of business on the ninetieth (90th) day prior to the first anniversary of the preceding year's annual meeting; provided, however, that in the event that the date of the annual meeting is more than thirty (30) days before or more than sixty (60) days after such anniversary date, notice by the stockholder to be timely must be so delivered not earlier than the close of business on the one hundred twentieth (120th) day prior to such annual meeting and not later than the close of business on the later of the ninetieth (90th) day prior to such annual meeting and the tenth (10th) day following the date on which public announcement of the date of such meeting is first made by the Corporation. In no event shall the public announcement of an adjournment of an annual meeting commence a new time period for the giving of a stockholder's notice as described above. To be in proper form, a stockholder's notice to the Secretary must set forth the following:

(a) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or business proposal is made:

(i) the name and address of such stockholder, as it appears on the Corporation's books, and of such beneficial owner, if any;

(ii) the class or series and number of shares of the Corporation which are owned beneficially and of record by such stockholder and beneficial owner, if any, as of the date of such notice (which information shall be supplemented by such stockholder and beneficial owner, if any, not later than ten (10) days after the record date for the meeting to disclose such ownership as of the record date); and

(iii) any other information relating to such stockholder and beneficial owner, if any, that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for, as applicable, the proposal and/or for the election of directors in a contested election pursuant to Section 14 of the Securities Exchange Act of 1934, as amended and the rules and regulations promulgated thereunder (the "Exchange Act");

(b) as to a notice relating to any business other than the nomination of a Director that the stockholder proposes to bring before the meeting:

(i) a brief description of the business desired to be brought before the meeting, the reasons for conducting such business at the meeting, and any material interest of such stockholder or beneficial owner, if any, in such business;

(ii) a representation as to whether or not the stockholder or beneficial owner, if any, will solicit proxies in support of such proposed business from the holders of at least the percentage of voting shares required under applicable law to carry the proposed business (a "Business Solicitation Notice"); and

(iii) a description of all agreements, arrangements and understandings between such stockholder and beneficial owner, if any, and any other person or persons (including their names) in connection with the proposal of such business by such stockholder; and

(c) as to a notice relating to the nomination of a Director, as to each person whom the stockholder and beneficial owner, if any, proposes to nominate for election or re-election as a Director:

(i) all information relating to such person that would be required to be disclosed in a proxy statement or other filings required to be made in connection with solicitations of proxies for election of directors pursuant to Section 14 of the Exchange Act (including such person's written consent to being named in the proxy statement as a nominee and to serving as a Director if elected);

(ii) a representation as to whether or not the stockholder or beneficial owner, if any, will solicit proxies in support of such proposed nominee from the holders of a sufficient number of voting shares reasonably believed by such stockholder or beneficial owner to be sufficient to elect such nominee (a "Nominee Solicitation Notice"); and

(iii) all other information required to be submitted by nominees pursuant to Section 6 of this Article II.

Date
Thursday, May 24, 2007

Time
9:00 a.m. Central Time

Place
Prairie Ballroom
The Lodge
McDonald's Office Campus
Oak Brook, Illinois 60523

Parking
Limited parking is available on Campus.

Webcast
To view a live webcast of the Annual Shareholders' Meeting, go to www.investor.mcdonalds.com on May 24 just prior to 9:00 a.m. Central Time, and click the appropriate link under "Webcasts." The Annual Shareholders' Meeting webcast will be available on demand for a limited time.

If you plan to attend
As seating in the Prairie Ballroom is very limited, we encourage shareholders to participate in the meeting via the live webcast. However, if you do decide to attend, please bring the tear-off portion of your proxy card or your brokerage statement reflecting your McDonald's holdings as proof of share ownership. Admission tickets will be given to shareholders on a first-come, first-served basis. Overflow rooms will be available for viewing the meeting. The registration desk will open at 7:30 a.m. Please be aware that all purses, briefcases, bags, etc. will be subject to inspection. Cameras and other recording devices will not be permitted at the meeting.

Directions

- *From downtown Chicago (and near west suburbs)*

I-290 west (Eisenhower Expressway) to I-88 west (Ronald Reagan Memorial Tollway) towards Aurora. Exit I-88 at Cermak Road/22nd Street (first exit immediately after York Road tollbooth). At Cermak Road/22nd Street (first stoplight), turn right. Go two stoplights to Jorie Boulevard, turn right. Go three stoplights to Kroc Drive, turn left. At stop sign, Ronald Lane, turn left. The Lodge is on left, parking is on right.

- *From I-294 (south suburbs)*

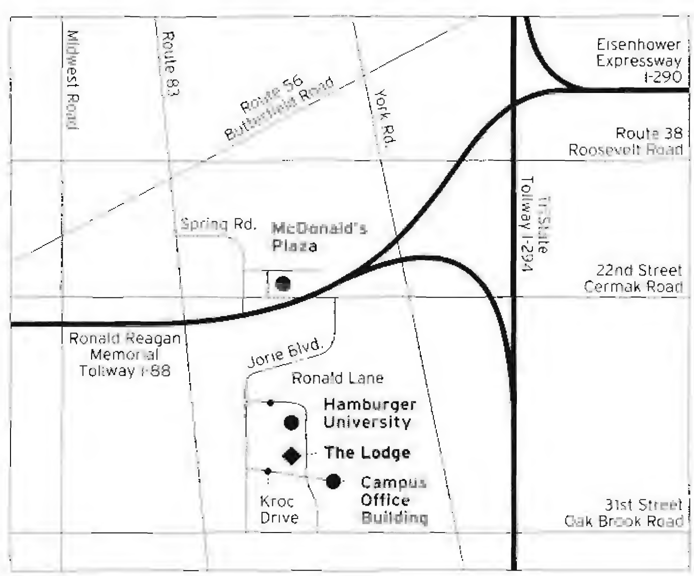
I-294 north to I-88 west (Ronald Reagan Memorial Tollway) towards Aurora. Exit I-88 at Cermak Road/22nd Street (first exit immediately after York Road tollbooth). At Cermak Road/22nd Street (first stoplight), turn right. Go two stoplights to Jorie Boulevard, turn right. Go three stoplights to Kroc Drive, turn left. At stop sign, Ronald Lane, turn left. The Lodge is on left, parking is on right.

- *From O'Hare Airport/I-294 (north suburbs)*

I-294 south to I-88 west (Ronald Reagan Memorial Tollway) towards Aurora. Exit I-88 at Cermak Road/22nd Street (first exit immediately after York Road tollbooth). At Cermak Road/22nd Street (first stoplight), turn right. Go two stoplights to Jorie Boulevard, turn right. Go three stoplights to Kroc Drive, turn left. At stop sign, Ronald Lane, turn left. The Lodge is on left, parking is on right.

- *From I-355 north or south or I-88 west (Ronald Reagan Memorial Tollway)(far west suburbs)*

From either direction, take I-88 east (Ronald Reagan Memorial Tollway) towards Chicago. Exit at Midwest Road and turn left (first stoplight). Take Midwest Road to 31st Street (stoplight), turn left. Take 31st Street to Jorie Boulevard (stoplight), turn left. Go to Kroc Drive (stoplight), turn right. At stop sign, Ronald Lane, turn left. The Lodge is on left, parking is on right.



NORTH

Home Office
McDonald's Corporation
McDonald's Plaza
Oak Brook, IL 60523
630-623-3000
www.mcdonalds.com

Printed on recycled paper with 10% post-consumer content.

McD07-4473

McDonald's Corporation

Notice of 2007 Annual Shareholders' Meeting and Proxy Statement

I'm lovin' it™

Contents

McDonald's Corporation
McDonald's Plaza
Oak Brook IL 60523
www.mcdonalds.com

our people

Well-trained, friendly people are key to providing *i'm lovin' it* service.

our products

Our menu features the choice and variety consumers enjoy eating often.

our places

The comfort and convenience of our restaurants attract customers.

our prices

Through our products and restaurant experience, we deliver value to customers.

our promotions

"Forever Young" and engaging, our Brand connects with people around the world.

Revenues grew by 9% to a record $21.6 billion.

3-year compound annual return to shareholders of 24% was more than double the returns achieved by the S&P 500 and the Dow Jones Industrial Average (DJIA).

Dividends have increased every year since we paid our first in 1976, and have nearly doubled since 2004.

New product launches

Successful new product launches in the U.S. included Premium Roast Coffee, the Asian Salad and Snack Wraps.

Anniversary celebration

We celebrated the 40th anniversary of McDonald's listing on the New York Stock Exchange®.

Growing to 31,000

We opened 744 McDonald's restaurants in 2006, ending the year with more than 31,000 locations worldwide.

2006 highlights

Earnings per share from continuing operations increased 13% in 2006.

$4 billion

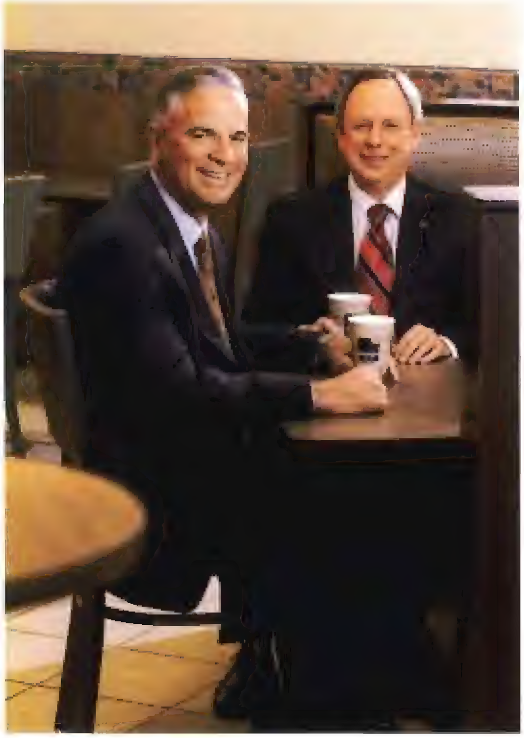
Cash from operations has averaged more than $4 billion per year for the last three years.

Focusing on the Brand

We intensified our focus on Brand McDonald's with the disposition of Chipotle Mexican Grill in 2006, receiving more than $300 million in cash and facilitating the acquisition of more than 18 million shares of McDonald's stock.

Drive-thru opportunity
In 2006, McDonald's formed a strategic partnership with Sinopec, China's largest oil producer. We opened our first drive-thru restaurant at a Sinopec gas station location in Beijing in January 2007.

A winning campaign
McDonald's was honored with one of advertising's most prestigious awards–a Global EFFIE–for our "i'm lovin' it" marketing campaign. This award recognizes advertising campaigns that have run in four or more countries in two or more areas of the world and have delivered significant business results.



Jim Skinner, Chief Executive Officer (right), and Ralph Alvarez, President and Chief Operating Officer, enjoy a cup of Premium Roast Coffee at a recently rebuilt McDonald's restaurant.

Dear shareholders:

The first priority of all publicly held companies is to create long-term, profitable growth for shareholders.

This priority creates two separate but equally important objectives for CEOs and their senior leadership teams. The first is to stay sharply focused on the here and now, and to run day-to-day operations with maximum efficiency and productivity. The second is to ensure that the right people and processes are concentrating on the future, and developing new innovations that can sustain profitable growth over the long haul.

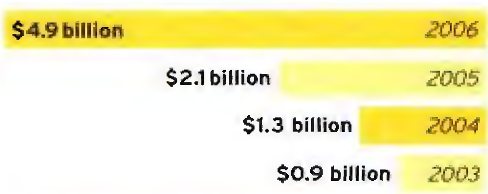
At McDonald's, we say "keep your eyes on the fries" when we refer to the first challenge, which is to deliver a consistently outstanding experience to the 52 million customers who visit McDonald's every single day. And when we consider the long-term realities of our business, we must "keep the innovation pipeline filled." This is McDonald's short-hand for the long-term research, planning and development required to maintain our historic leadership in the highly competitive restaurant business.

It is my responsibility, along with the senior leadership team, to strike an effective balance between these immediate and longer-term objectives. This involves maintaining fiscal discipline and tight controls on Company expenses...keeping a relentless focus on all details of our restaurant operations...understanding the changing needs of our customers and striving to be more relevant in their lives...and making the right investments in new products, equipment, technologies and other restaurant innovations to drive our business forward.

As Chief Executive Officer, I am proud to report that since early 2003, when we announced comprehensive plans to revitalize our business and initiated our Plan to Win, we have struck that balance better than at any time in our history. Our success has been a total System effort, with McDonald's owner/operators, Company employees and suppliers aligning fully to serve more customers, more often, more profitably than ever before.

As a System, we're proud that our commitment to be better disciplined and better aligned has produced results that directly benefit all McDonald's stakeholders.

"...we're proud that our commitment to be better disciplined and better aligned has produced results that directly benefit all McDonald's stakeholders...2006 was one of the most successful years in McDonald's history."



Cash returned to shareholders totaled more than $9 billion from 2003-2006.

Financially, McDonald's share price has increased three-fold since we implemented our Plan to Win, with its strategic imperative to be better, not just bigger. During this four-year period ended December 2006, we reported 44 consecutive months of positive global comparable sales, delivered double-digit increases in annual earnings per share, returned more than $9 billion to shareholders through dividends and share repurchases, added six million more customers per day, and increased average annual restaurant sales about 20 percent.

Best of all, our momentum has been accelerating through these years of revitalization.

In fact, 2006 was one of the most successful years in McDonald's history. We achieved record annual revenues of $21.6 billion. Our Systemwide sales were up 7 percent globally, driven by a strong 5.7 percent increase in comparable sales. And notably, total shareholder return for the year was 35 percent, placing McDonald's in the top quartile of the Dow Jones Industrials.

Clearly, we are remaining true to the heritage of our founder Ray Kroc. More than a half century ago, he established the fundamentals of the McDonald's formula for success - quality, service, cleanliness and value. These same fundamentals now serve as the cornerstones of our Plan to Win.

Wherever you go in the McDonald's System, to any of our 31,000 restaurants worldwide, you will see them at work for our customers.

You'll see them in the quality of our core menu - from classic McDonald's hamburgers and French fries...to Happy Meal choices...to our new premium salads and sandwiches - always evolving to meet the changing needs of our customers.

You'll see them in the ambiance of our restaurant designs...in the convenience of our extended hours of operations...in the efforts we are making to educate our customers regarding balanced, active lifestyles...and in the care we are taking to be a trusted, responsible company that does the right thing for our customers and our communities.

Most important, you'll see them in the eyes of our employees, because of the training they receive and the opportunity our System provides. The McDonald's System spends more than $1 billion a year to train and develop our people, and this is paying off in improved customer service scores.

"...we have a powerful brand and an excellent business model, with owner/operators, suppliers and Company people working together toward common goals."

Moreover, 67,000 restaurant managers worldwide, 1,200 U.S. owner/operators, and 40% of our global senior management - myself included - began our careers as crew members. This is a remarkable testament to McDonald's belief that great training and great opportunity are flip sides of the same coin.

Clearly, we are keeping our eyes on our fries.

Just as important, we are focused on long-term profitability by creating innovations around our Plan to Win. Our "innovation pipeline" is all about accelerating the momentum of our business and taking advantage of the growth opportunities that exist in the restaurant business.

The global "Informal Eating Out" market is projected to grow by $50 billion this year and by more than $200 billion over the next four years.

Currently, thanks to operations excellence and leadership marketing, we have a leading market share in every area of the world. Going forward, by leveraging our size, brand strength and capacity to scale new ideas - through 31,000 of the best locations on the planet and the best owner/operators in the history of franchising - we have a unique opportunity to continue to grow market share and ultimately take a larger slice out of an ever-increasing pie.

This is exactly what we mean when we talk about creating long-term, profitable growth for our shareholders. It is an ambitious goal - one I am completely confident we can achieve.

I am confident, first, because we have a powerful brand and an excellent business model, with owner/operators, suppliers and Company people working together toward common goals.

I am also confident because I know we have a committed Board of Directors and an unsurpassed global management team that continues to provide the governance and leadership McDonald's needs to strike the right balance between short- and long-term business priorities.

Lastly, I am confident because we have the support of our shareholders. Through your continued investment in McDonald's, you have demonstrated the trust you have in our ability to succeed.

We thank you for that - and we will work to maintain your trust.

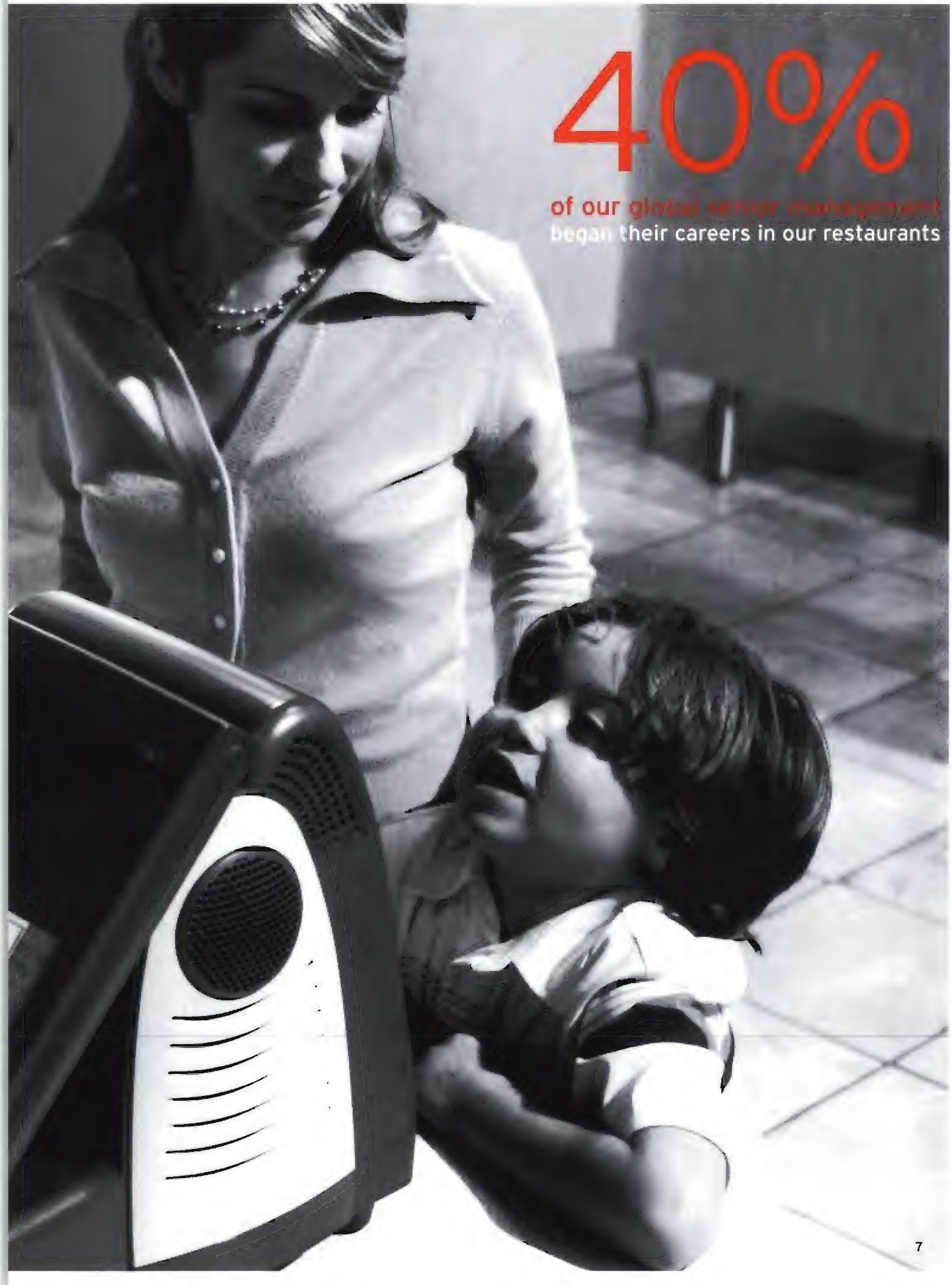
Sincerely,

Jim Skinner
Chief Executive Officer
March 16, 2007

The Big Mac - a classic menu favorite of customers around the world.

Bringing our Plan to Win to life...

"A simple smile makes me feel welcome...it's the perfect start to my meal...it's the reason I love McDonald's."

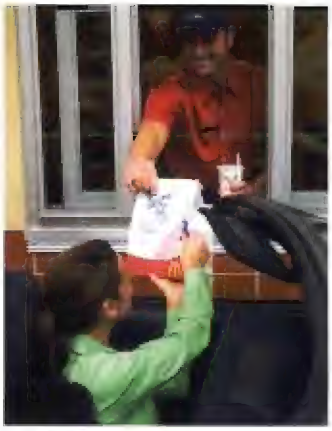

40%
of our global senior management
began their careers in our restaurants

EEOC

FREEDOM TO COMPETE 2006

Recipient of "Freedom to Compete" award

The U.S. Equal Employment Opportunity Commission recognized McDonald's with the 2006 "Freedom to Compete" award in recognition of our diversity and inclusion initiatives. McDonald's trains more women and minorities than any other U.S. employer. In fact, more than 40% of our U.S. owner/operators and more than 50% of our workforce are women and minorities.



Speedy sales and service

Serving customers is job #1 at McDonald's. We use a "nuts and bolts" approach when rolling out new training and operations guidelines that enable us to streamline existing processes, implement new ones and effectively introduce new products and promotions.

Flexible operating platform

Looking to the future, we are developing a new restaurant operating system to help us enhance the customer experience and make employees' jobs easier. The system encompasses production, service and support with flexible components that can be "plugged in" to customize the operations and menu to specific restaurant needs.

McPassport

McDonald's Europe launched a significant private sector initiative to promote employee mobility with McPassport. This program certifies the training and skills of our people, facilitating their movement throughout the European Union.

>$1 billion

spent by the McDonald's System on training and development every year

Satisfying employees is our first step toward satisfying customers. Competitive pay and benefits, world-class training, an unwavering commitment to diversity and inclusion, and a focus on teamwork are hallmarks of the McDonald's work experience.

100
BEST COMPANIES
TO WORK FOR
IN LATIN AMERICA
2006

Great place to work

In 2006, the Great Place to Work® Institute ranked McDonald's #1 in Latin America. We've received similar honors in more than 20 countries including Australia, Canada, France, Germany, Hong Kong and the U.K.

Training and development

McDonald's and our owner/operators invest more than $1 billion annually on training and development worldwide, creating a platform for unlimited opportunity and growth. To encourage continuous learning and development, we leverage a state-of-the-art e-learning program. In addition, more than 300,000 people have graduated from our Hamburger University facilities.

Restaurant operations improvement process

Whether you're in Beijing, Moscow, London or New York, you know what to expect when you visit McDonald's. We help ensure this remarkable consistency through our Global Restaurant Operations Improvement Process, which evaluates how effectively restaurants are meeting McDonald's standards and identifies opportunities to improve performance.

"What do I want from a restaurant? Good food and good choices. That's why I go to McDonald's."

16%

increase in U.S. coffee unit sales driven by introduction of Premium Roast Coffee

A breakfast opportunity

McDonald's is a favorite morning destination and our new Premium Roast Coffee has made us even more popular. Yet, the growth opportunity remains significant. We sell less than one of every 10 cups of coffee purchased outside the home in the U.S. We also see breakfast becoming an increasingly important part of our business in Europe and Asia.

Moms know best

"Loved by kids, approved by mom" is one of our important goals. So, we've created a Global Moms Advisory Panel of 10 mothers from seven countries to provide input and guidance on a broad range of topics, including our food, to help us better serve the needs of moms and families around the world.

Nutrition information

In 2006, we built on our 30-year history of providing nutrition information by becoming the first restaurant company to place this information in an easy-to-read graphic format on our packaging.

Responsible suppliers

We are committed to purchasing from suppliers who not only meet our stringent food safety standards, but who also share our commitment to social responsibility and sustainability. This includes compliance with our animal welfare guidelines, rain forest and antibiotics policies, and supplier social accountability program.

"McDonald's is a cool place where everyone can relax. I'm comfortable here, and my friends and I know we're always welcome."

McDonald's offers relevant menu variety to appeal to a broad range of customers. Beef, chicken, eggs, fish, fruit and vegetables are all among the wholesome, high-quality ingredients we serve.

Locally relevant food
Classic menu items like our Big Mac, double cheeseburger and French fries are customer favorites around the world. We also appeal to local taste preferences with relevant offerings like the Ebi Filet-O shrimp burger in Japan, the McArabia in the Middle East and the one-third pound Big Tasty (above) in most of Europe and Latin America.

New chicken offerings
Given the growing consumer interest in chicken, we'v broadened our products to include premium salads a sandwiches, Chicken Selects and the popular crispy and grilled Snack Wraps. Looking ahead, we'll continu to extend our chicken offerings with items like the ne Premium Southwest Salad in the U.S.

Happy Meal choices
Around the world, we've expanded Happy Meal choices with offerings like drinkable yogurt, sliced fresh fruit, low-fat milk and fruit juice. For example, in the U.K., carrot sticks, bottled water and the 99% fruit juice Wobble-icious jelly dessert are some of the options available.


8,000
restaurants around the world
remodeled or rebuilt since 2002

15,000

restaurants worldwide offer wireless internet access

Drive-thrus in China

To better connect with increasingly mobile Chinese consumers, about half of the 100 restaurants we plan to open each year in China will have drive-thrus. We opened our first drive-thru in China in late 2005 and operated 15 at year-end 2006.

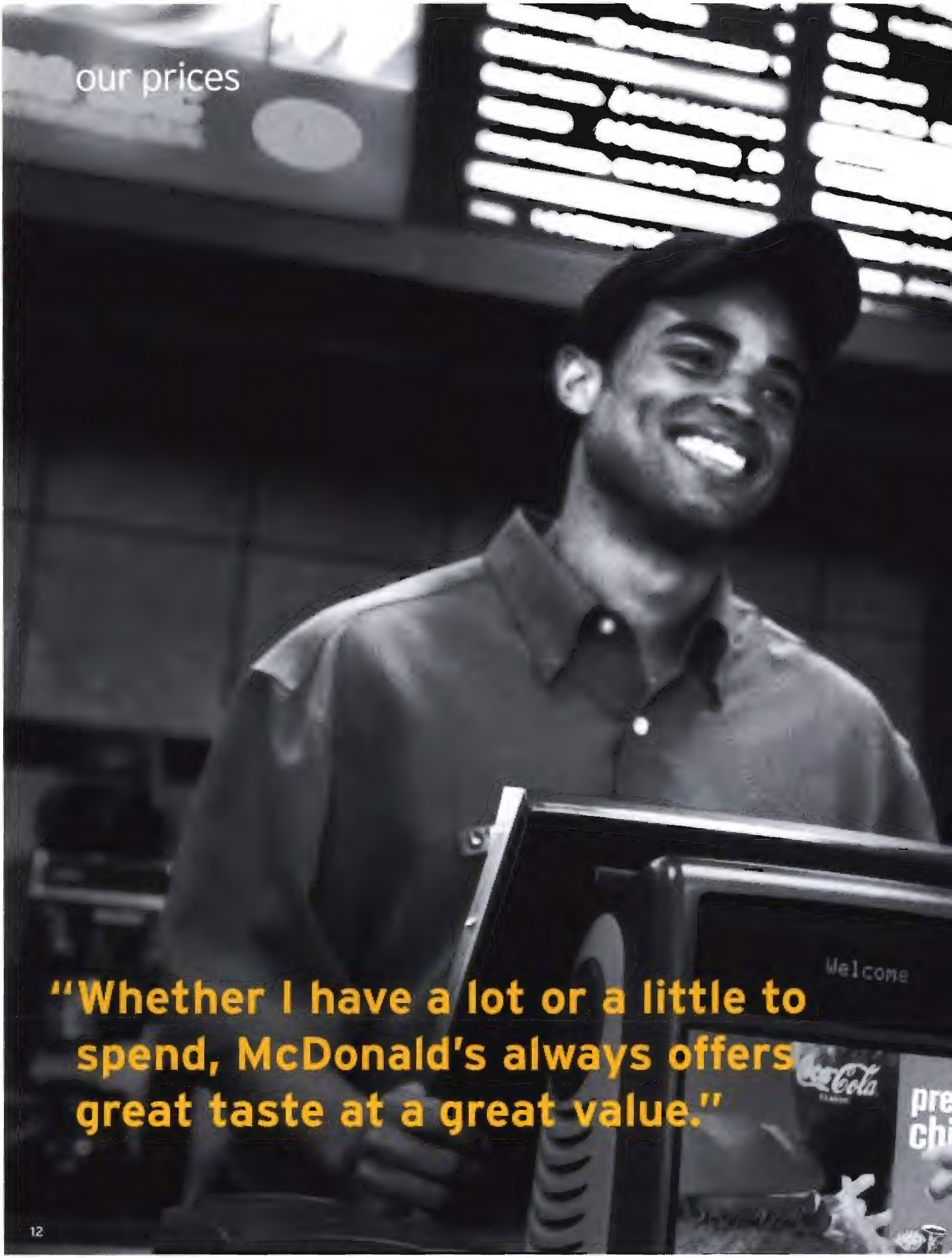
Gold standard design

To remain "Forever Young," we're changing the look of our restaurant exteriors in the U.S. This new design highlights the modern, dynamic and fun aspects of McDonald's and can be adapted to reflect the local community.

McCafé

Featuring a relaxed, adult atmosphere, our more than 1,000 McCafés in 34 countries offer customers a variety of specialty coffee drinks along with muffins, pastries and sandwiches. McCafés attract new customers into our restaurants and result in even higher regular menu sales.

our prices



"Whether I have a lot or a little to spend, McDonald's always offers great taste at a great value."

When customers enter our restaurants, they enter our Brand. Having modern, comfortable and convenient restaurants is key to making McDonald's a place customers want to visit...over and over again.

Gift it

We're tapping into the increasing popularity of gift cards with the McDonald's Arch Card offered in the U.S. Featuring distinctly McDonald's designs and available in denominations of $5, $10, $25 and $50, the Arch Card gives customers a quick and convenient way to pay, making it the perfect gift for friends or family, the holidays or any day.

Laughs in Latin America

Specially trained crew bring smiles and laughs to kids and their families through our Ja Ja Mundo program in Latin America. This program integrates Happy Meals, Ronald McDonald appearances and in-restaurant entertainment like face painting, arts & crafts and games to create a unique McDonald's experience.

Extended hours

Recognizing the 24/7 lifestyles of many consumers today, our restaurants are staying open longer - in many cases, even 24 hours. Extended hours contributed to our sales growth over the last couple of years in many countries.

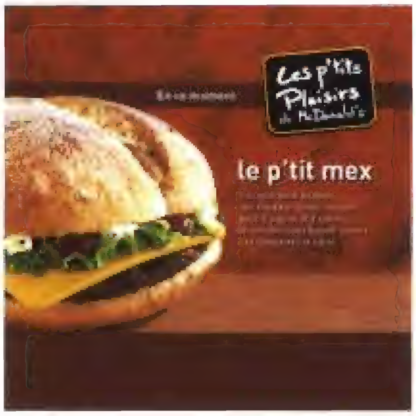
Reimaging

We've created more comfortable and contemporary restaurant environments by remodeling or rebuilding more than 2,500 restaurants around the world in 2006. Reimaged restaurants attract more customers and enhance perceptions of McDonald's as a place adults, not just kids, enjoy. We will continue this effort in 2007 and beyond.

Communicating the facts
In the U.K., we educated consumers about our product quality, balanced menu choices and social responsibility efforts by mailing a pamphlet to households that told our story and featured coupons to encourage product trial and repeat visits.

Energy efficiency
Energy efficiency lowers operating costs while helping conserve natural resources. We're piloting a new global energy management strategy to optimize energy use now and over the long term. McDonald's restaurants in this pilot program in North and Latin America have cut their utility consumption by more than 10%.

Efficient supply chain
To profitably serve millions of customers every day, we must effectively manage restaurant operating costs, especially food costs. We collaborate with suppliers to leverage economies of scale across our global System and to ensure we have a reliable supply of high quality food at predictable, competitive prices.



Little pleasures
Variety is the spice of life in France where a rotating selection of small, affordably priced sandwiches called Les p'tits Plaisirs has helped drive sales by delivering flavor and value to customers.

$$\text{Value} = \frac{\text{what you get}}{\text{what you pay}}$$

Having the right products is just one part of the equation...offering them at a price that represents value to our customers, while creating value for our suppliers, owner/operators and shareholders is also essential.

Branded affordability

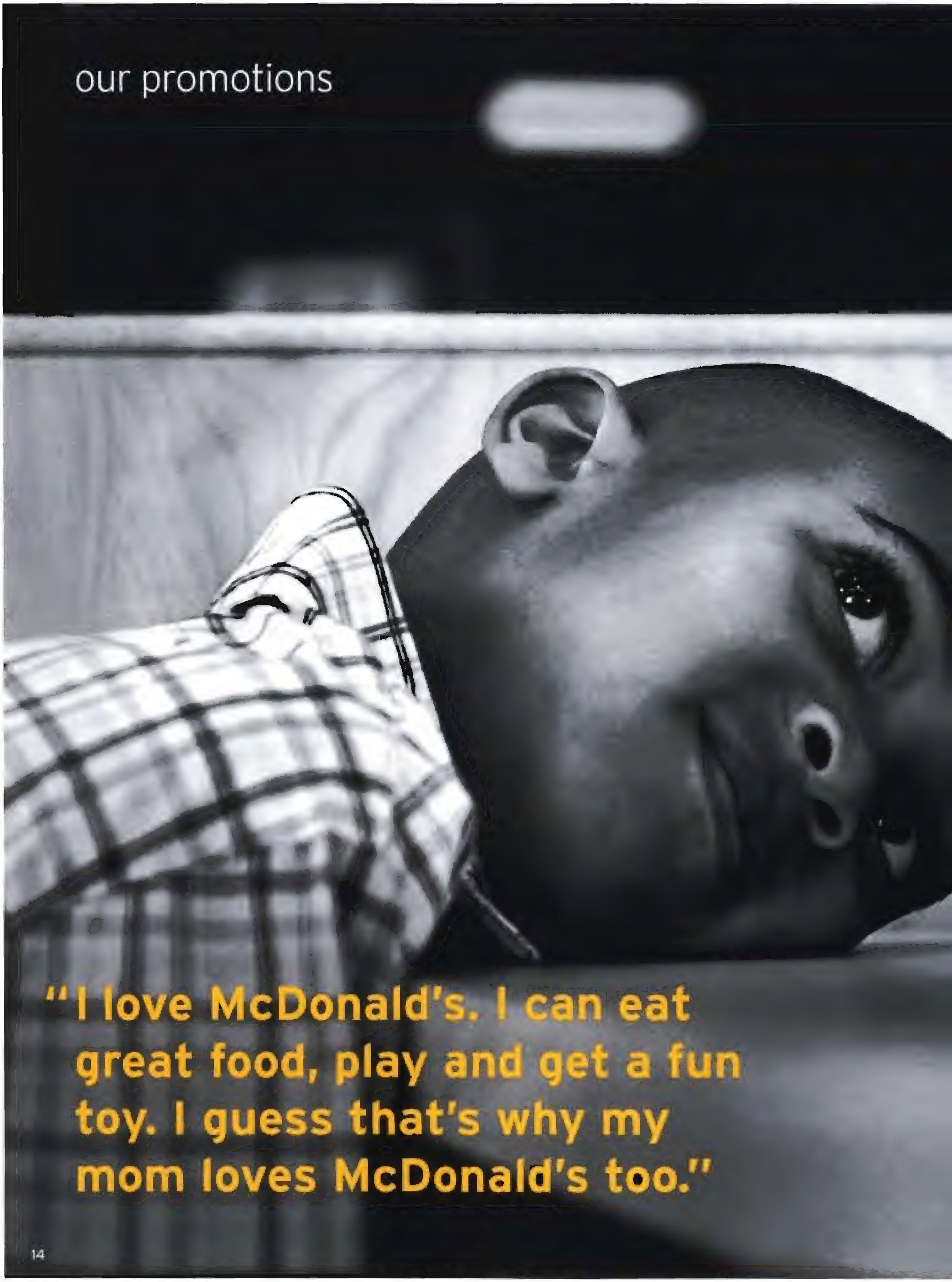
Combining value and brand in a uniquely McDonald's way, we use branded everyday affordability platforms like Germany's Ein Mal Eins menu, Japan's 100 Yen menu, Canada's Value Picks menu and the Dollar menu in the U.S., to keep McDonald's top of mind and to give us a competitive edge.

Strategic pricing

Value is more than price - it's what you get for what you pay. Last year, this was exemplified in China and Japan where strategic menu price changes were designed to deliver value and enhance profitability.

Something for everyone

To appeal to customers' varying tastes, appetites and pocketbooks, we use a tiered menu approach, offering a spectrum of price points that each delivers value. Providing variety and choice means McDonald's has something for everyone.



"I love McDonald's. I can eat great food, play and get a fun toy. I guess that's why my mom loves McDonald's too."

The Shrek effect

In an event of fairy tale proportions, McDonald's is joining with DreamWorks™ to create a special all-family celebration featuring food, Happy Meal toys, interactive online activities and collectible glasses tied to the much anticipated *Shrek the Third*™ movie debuting in North America in May 2007.

Global casting call

In one of the world's first online casting calls, 13,000 people from more than 100 countries shared their stories and photos for the chance to be one of 24 winners who will be featured on our global packaging. Conducted entirely over the Internet with no advertising, our casting call generated nearly 13 million hits to our web site.

World Children's Day

For the fifth consecutive year, McDonald's restaurants around the world celebrated World Children's Day with fundraising activities to benefit Ronald McDonald House Charities® and other local children's charities. In 2006, we raised more than $25 million worldwide, bringing the total raised since inception to more than $100 million.

New age of marketing

We're strengthening our connection with customers by engaging and interacting in ways relevant to their lifestyles. This includes reaching them via print, billboards, the Internet and mobile communications – such as the text-message to win World Cup tickets promotion in the U.K.

1 of Top 10

most valuable brands in the world

McDonald's is a friend to customers around the world – we're comfortable and fun to be around, sharing our "Forever Young" attitude and "i'm lovin' it" spirit in everything we do.

Popular promotions

One way we bring the "i'm lovin' it" spirit to life is by sharing customers' enthusiasm for hot properties. We built sales and excitement in 2006 through the top-selling *Cars* Happy Meal, perennially popular games like Monopoly® and UNO®, and great collectibles like the Coca-Cola® glasses that were available in France, Germany and the U.K.

Olympic Games

As a global partner of the Olympic Games, we proudly share many Olympic ideals – excellence, teamwork and being the best. Our sponsorship reflects our ongoing commitment to the importance of sports and physical activity. At the Torino 2006 Olympic Winter Games, our best crew from around the world proudly served the world's best athletes at the McDonald's restaurants in the Olympic Village.

World champions

It was the thrill of a lifetime for 1,400 children from 51 countries who took part in McDonald's exclusive Player Escort program at the 2006 FIFA World Cup.™ At the start of each match, these children, ages 6-10 years old, excitedly walked hand-in-hand onto the field with one of the world's best soccer players.

13 million

hits to our web site in response to our global casting call

Management team

The three-legged stool

There are many reasons for McDonald's growth and success over the decades. One of the most important is the unique business model that McDonald's Founder Ray Kroc created. This model has often been described as a "three-legged stool," the three legs being our owner/operators, suppliers and Company employees.

Just as all three legs of a stool need to be equal to support the weight, all three elements of the McDonald's System are equally important partners in McDonald's success.

[illegible]

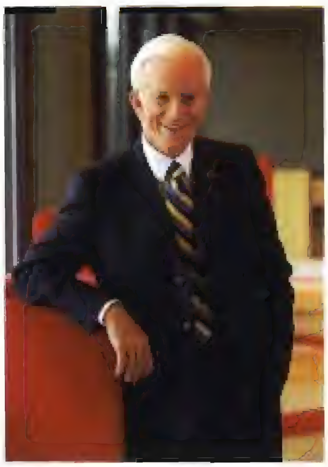
Matthew Paull
Gloria Santona
Jose Armario
Jeff Stratton
Ralph Alvarez
Don Thompson
Jim Skinner
Denis Hennequin
Rich Floersch
Mary Dillon
Tim Fenton
Jan Fields

"Our people are the spirit of McDonald's, and they turn our Plan to Win into reality with their commitment to our restaurants, their dedication to excellence, their passion for serving customers and their pride in our System. This pride cements the trust that holds our three-legged stool together–dedicated owner/operators, suppliers and employees."

Jim Skinner, McDonald's CEO

Dear fellow shareholders:

"...we believe that McDonald's has a clear and compelling strategic vision for its business well into the future..."



Your Board of Directors is pleased to report that McDonald's has completed another outstanding year of progress in its efforts to satisfy customers around the world. Your senior management team under the leadership of Jim Skinner, Vice Chairman and CEO, continues to maintain strong momentum under the Company's Plan to Win.

In our oversight role, we believe that McDonald's has a clear and compelling strategic vision for its business well into the future, and that it continues to execute its plans on behalf of its customers with dedication and enthusiasm. Under Jim's leadership, the Company's focus on long-term profitable growth, talent management and leadership development, and balanced active lifestyles provides a solid foundation for continued industry leadership in all areas of the world. In addition, McDonald's focus on operations excellence and leadership marketing has never been stronger.

Your Board is dedicated to strong corporate governance on behalf of all our shareholders. We also focus on maintaining effective management oversight, with an important emphasis on succession planning. Our diverse backgrounds bring a number of independent and experienced voices in support of the Company's priorities, and we are united in our goal to ensure McDonald's strives to enhance shareholder value.

We are privileged to serve you and we are honored to represent your interests as McDonald's continues to grow and prosper.

Very truly yours,

Andy McKenna

Andy McKenna
Chairman

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Robert Eckert[1,2]
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Roger Stone[2,3,6]

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Fred Turner, Honorary Chairman

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2 Governance Committee
3 Audit Committee
4 Corporate Responsibility Committee
5 Executive Committee
6 Finance Committee

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President, Chief Operating Officer

Jose Armario*
President - Latin America

Mary Dillon*
Chief Marketing Officer

Steven Easterbrook
President - Europe Northern Division

Timothy Fenton*
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U.S. Chief Operations Officer

Richard Floersch*
Chief Human Resources Officer

Denis Hennequin*
President - Europe

James Johannesen
President - U.S. Central Division

Khamzat Khasbulatov
President - Europe Eastern Division

Karen King
President - U.S. East Division

Bane Knezevic
President - Europe Western Division

Louie Mele
President - Canada

Matthew Paull*
Chief Financial Officer

Jean-Pierre Petit
President - Europe Southern Division

Steven Plotkin
President - U.S. West Division

David Pojman*
Corporate Controller

Gloria Santona*
General Counsel, Corporate Secretary

James Skinner*
Vice Chairman, Chief Executive Officer

Jeffrey Stratton*
Chief Restaurant Officer

Donald Thompson*
President - U.S.A.

*Executive officer

financial report

Contents

11-YEAR SUMMARY

DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA	***2006***	*2005*	*2004*	*2003*	*2002*	*2001*	*2000*	*1999*	*1998*	*1997*	*1996*
Company-operated sales	**$ 16,083**	14,726	13,755	12,481	11,296	10,909	10,396	9,504	8,895	8,136	7,571
Franchised and affiliated revenues	**$ 5,503**	5,106	4,839	4,344	3,905	3,829	3,776	3,747	3,526	3,273	3,116
Total revenues	**$ 21,586**	19,832	18,594	16,825	15,201	14,738	14,172	13,251	12,421	11,409	10,687
Operating income	**$ 4,445**[1]	3,992	3,538[4]	2,837[5]	2,128[6]	2,721[7]	3,352	3,324	2,762[8]	2,808	2,633
Income from continuing operations	**$ 2,873**[1]	2,586[3]	2,278[4]	1,511[5]	1,000[6]	1,649[7]	1,987	1,950	1,550[8]	1,642	1,573
Net income	**$ 3,544**[1,2]	2,602[3]	2,279[4]	1,471[5,9]	893[6,10]	1,637[7]	1,977	1,948	1,550[8]	1,642	1,573
Cash provided by operations	**$ 4,341**	4,337	3,904	3,269	2,890	2,688	2,751	3,009	2,766	2,442	2,461
Cash used for investing activities	**$ 1,273**	1,818	1,383	1,370	2,467	2,068	2,213	2,262	1,948	2,217	2,570
Capital expenditures	**$ 1,742**	1,607	1,419	1,307	2,004	1,906	1,945	1,868	1,879	2,111	2,375
Cash used for (provided by) financing activities	**$ 5,192**	(362)	1,634	1,737	511	624	537	627	860	214	(104)
Treasury stock acquired	**$ 3,719**	1,228	605	439	687	1,090	2,002	933	1,162	765	605
Common stock cash dividends	**$ 1,217**	842	695	504	297	288	281	265	239	221	203
Financial position at year end:											
Total assets	**$ 29,024**	29,989	27,838	25,838	24,194	22,535	21,684	20,983	19,784	18,242	17,386
Total debt	**$ 8,434**	10,137	9,220	9,731	9,979	8,918	8,474	7,252	7,043	6,463	5,523
Total shareholders' equity	**$ 15,458**	15,146	14,201	11,982	10,281	9,488	9,204	9,639	9,465	8,852	8,718
Shares outstanding *IN MILLIONS*	**1,204**	1,263	1,270	1,262	1,268	1,281	1,305	1,351	1,356	1,371	1,389
Per common share:											
Income from continuing operations-diluted	**$ 2.30**[1]	2.03[3]	1.79[4]	1.18[5]	0.78[6]	1.26[7]	1.46	1.39	1.10[8]	1.15	1.08
Net income-diluted	**$ 2.83**[1,2]	2.04[3]	1.79[4]	1.15[5,9]	0.70[6,10]	1.25[7]	1.46	1.39	1.10[8]	1.15	1.08
Dividends declared	**$ 1.00**	.67	.55	.40	.24	.23	.22	.20	.18	.16	.15
Market price at year end	**$ 44.33**	33.72	32.06	24.83	16.08	26.47	34.00	40.31	38.41	23.88	22.69
Company-operated restaurants	**8,785**	8,802	8,811	8,661	8,773	8,204	7,548	6,022	5,433	4,887	4,294
Franchised restaurants	**18,687**	18,326	18,240	18,125	17,859	17,392	16,795	15,949	15,086	14,197	13,374
Affiliated restaurants	**4,195**	4,269	4,101	4,038	4,244	4,320	4,260	4,301	3,994	3,844	3,216
Total Systemwide restaurants	**31,667**	31,397	31,152	30,824	30,876	29,916	28,603	26,272	24,513	22,928	20,884
Franchised and affiliated sales[11]	**$ 41,380**	38,913	37,052	33,129	30,022	29,590	29,714	28,979	27,084	25,502	24,241

(1) Includes pretax operating charges of $134 million ($98 million after tax or $0.07 per share income from continuing operations, $0.08 per share net income) related to impairment and other charges (see Impairment and other charges (credits), net note to the consolidated financial statements for further details), as well as net incremental tax expense of $0.01 per share primarily related to a one-time impact from a tax law change in Canada.

(2) Includes income of $671 million ($0.53 per share) related to discontinued operations primarily resulting from the disposal of our investment in Chipotle.

(3) Includes a net tax benefit of $73 million ($0.05 per share) comprised of $179 million ($0.14 per share) tax benefit due to a favorable audit settlement of the Company's 2000-2002 U.S. tax returns and $106 million ($0.09 per share) of incremental tax expense resulting from the decision to repatriate certain foreign earnings under the Homeland Investment Act.

(4) Includes pretax operating charges of $130 million related to impairment and $151 million ($18 million related to 2004 and $133 million related to prior years) for a correction in the Company's lease accounting practices and policies (see Impairment and other charges (credits), net note to the consolidated financial statements for further details), as well as a nonoperating gain of $49 million related to the sale of the Company's interest in a U.S. real estate partnership, for a total pretax expense of $232 million ($166 million after tax or $0.13 per share).

(5) Includes pretax charges of $408 million ($323 million after tax or $0.26 per share) primarily related to the disposition of certain non-McDonald's brands and impairment.

(6) Includes pretax charges of $853 million ($700 million after tax or $0.55 per share) primarily related to restructuring certain international markets and eliminating positions, restaurant closings/asset impairment and the write-off of technology costs.

(7) Includes pretax operating charges of $378 million primarily related to the U.S. business reorganization and other global change initiatives, and restaurant closings/asset impairment as well as net pretax nonoperating income of $125 million primarily related to a gain on the initial public offering of McDonald's Japan, for a total pretax expense of $253 million ($143 million after tax or $0.11 per share).

(8) *Includes pretax charges of $322 million ($219 million after tax or $0.16 per share) consisting of $162 million of "Made For You" costs and $160 million related to a home office productivity initiative.*

(9) *Includes a $37 million after tax charge ($0.03 per share) to reflect the cumulative effect of the adoption of Statement of Financial Accounting Standards (SFAS) No. 143, "Accounting for Asset Retirement Obligations," which requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time the obligations are incurred.*

(10) *Includes a $99 million after tax charge ($0.07 per share) to reflect the cumulative effect of the adoption of SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142), which eliminates the amortization of goodwill and instead subjects it to annual impairment tests. Adjusted for the nonamortization provisions of SFAS No. 142, net income per common share would have been $0.02 higher in 2001 and 2000 and $0.01 higher in 1999-1996.*

(11) *While franchised and affiliated sales are not recorded as revenues by the Company, management believes they are important in understanding the Company's financial performance because these sales are the basis on which the Company calculates and records franchised and affiliated revenues and are indicative of the financial health of the franchisee base.*

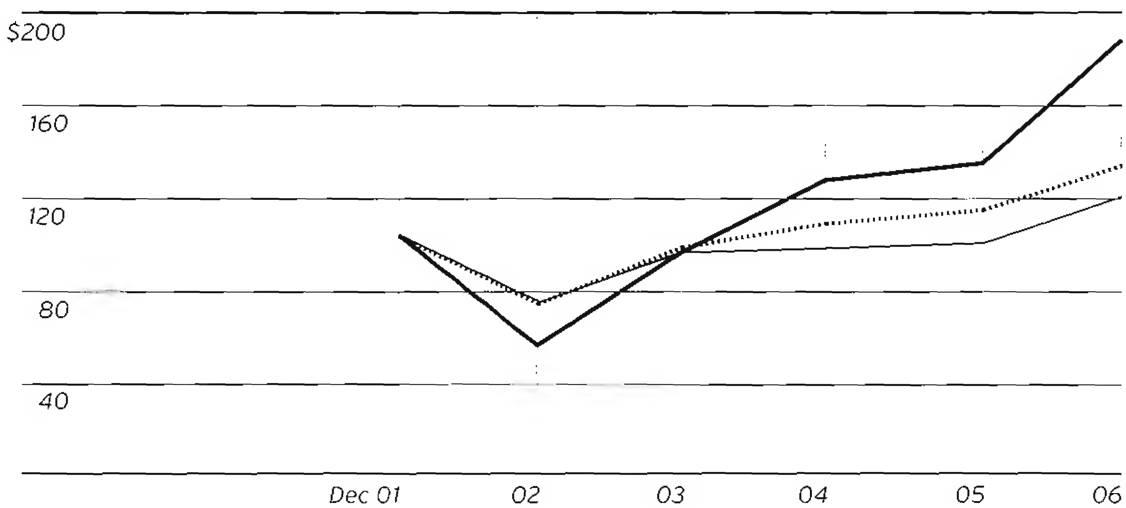
STOCK PERFORMANCE GRAPH

At least annually, we consider which companies comprise a readily identifiable investment peer group. McDonald's is included in published restaurant indices; however, unlike most other companies included in these indices, which have no or limited international operations, McDonald's does business in more than 100 countries and a substantial portion of our revenues and income is generated outside the U.S. In addition, because of our size, McDonald's inclusion in those indices tends to skew the results. Therefore, we believe that such a comparison is not meaningful.

Our market capitalization, trading volume and importance in an industry that is vital to the U.S. economy have resulted in McDonald's inclusion in the Dow Jones Industrial Average (DJIA) since 1985. Like McDonald's, many DJIA companies generate meaningful revenues and income outside the U.S. and some manage global brands. Thus, we believe that the use of the DJIA companies as the group for comparison purposes is appropriate.

The following performance graph shows McDonald's cumulative total shareholder returns (i.e., price appreciation and reinvestment of dividends) relative to the Standard & Poor's 500 Stock Index (S&P 500 Index) and to the DJIA companies for the five-year period ended December 31, 2006. The graph assumes that the value of an investment in McDonald's common stock, the S&P 500 Index and the DJIA companies (including McDonald's) was $100 at December 31, 2001. For the DJIA companies, returns are weighted for market capitalization as of the beginning of each period indicated. These returns may vary from those of the Dow Jones Industrial Average Index, which is not weighted by market capitalization, and may be composed of different companies during the period under consideration.

Comparison of five-year cumulative total shareholder returns



	Dec 01	02	03	04	05	06
McDonald's	**100**	**62**	**96**	**127**	**136**	**183**
S&P 500 Index	100	78	100	111	117	135
DJIA companies	100	78	96	101	103	121

Source: Standard & Poor's Compustat

OVERVIEW

Description of the business

The Company primarily franchises and operates McDonald's restaurants. In addition, the Company operates and has investments in certain non-McDonald's brands that are not material to the Company's overall results. Of the 31,046 McDonald's restaurants in 118 countries at year-end 2006, 18,685 are operated by franchisees (including 1,091 operated by developmental licensees), 4,195 are operated by affiliates and 8,166 are operated by the Company. Under our conventional franchise arrangement, franchisees provide a portion of the required capital by initially investing in the equipment, signs, seating and décor of their restaurant businesses, and by reinvesting in the business over time. The Company owns the land and building or secures long-term leases for both Company-operated and franchised restaurant sites. This ensures long-term occupancy rights, helps control related costs and improves alignment with franchisees. Under our developmental license arrangement, licensees provide ongoing capital for the entire business, including the real estate interest, while the Company generally has no capital invested.

We view ourselves primarily as a franchisor and continually review our restaurant ownership mix (that is our mix among Company-operated, franchised—conventional or developmental license, and joint venture) to deliver a great customer experience and drive profitability. In most cases, franchising is the best way to achieve both goals. Although direct restaurant operation is more capital-intensive relative to franchising and results in lower operating margins as a percent of revenues, Company-operated restaurants are important to our success in both mature and developing markets. In our Company-operated restaurants, and in collaboration with our franchisees, we further develop and refine operating standards, marketing concepts and product and pricing strategies, so that we introduce Systemwide only those that we believe are most beneficial. In addition, we firmly believe that owning restaurants is paramount to being a credible franchisor. Our Company-operated business also helps to facilitate changes in restaurant ownership as warranted by strategic considerations.

Revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees and affiliates. These fees primarily include rent, service fees and/or royalties that are based on a percent of sales, with specified minimum rent payments. Fees vary by type of site, amount of Company investment and local business conditions. These fees, along with occupancy and operating rights, are stipulated in franchise/license agreements that generally have 20-year terms.

The business is managed as distinct geographic segments: United States; Europe; Asia/Pacific, Middle East and Africa (APMEA); Latin America; and Canada. In addition, throughout this report we present a segment entitled "Corporate & Other" that includes Corporate activities and non-McDonald's brands (e.g., Boston Market). The U.S. and Europe segments each account for approximately 35% of total revenues. France, Germany and the United Kingdom (U.K.), collectively, account for approximately 60% of Europe's revenues; and Australia, China and Japan (a 50%-owned affiliate accounted for under the equity method), collectively, account for nearly 50% of APMEA's revenues. These six markets along with the U.S. and Canada are referred to as "major markets" throughout this report and comprise approximately 70% of total revenues.

During 2006, the Company disposed of its entire investment in Chipotle Mexican Grill (Chipotle) via public stock offerings and a tax-free exchange for McDonald's common stock. As a result of the complete disposition of Chipotle, the Company has reflected Chipotle's results for all years shown as discontinued operations, including gains from the disposition in 2006.

In analyzing business trends, management considers a variety of performance and financial measures including comparable sales growth, Systemwide sales growth, operating margins and returns.

- Constant currency results exclude the effects of foreign currency translation and are calculated by translating current year results at prior year average exchange rates. Management reviews and analyzes business results in constant currencies and bases certain compensation plans on these results because we believe they better represent the underlying business trends.
- Comparable sales are a key performance indicator used within the retail industry and are indicative of acceptance of the Company's initiatives as well as local economic and consumer trends. Increases or decreases in comparable sales represent the percent change in constant currency sales from the same period in the prior year for all McDonald's restaurants in operation at least thirteen months, including those temporarily closed. Some of the reasons restaurants may be temporarily closed include road construction, reimaging or remodeling, and natural disasters. McDonald's reports on a calendar basis and therefore the comparability of the same month, quarter and year with the corresponding period of the prior year will be impacted by the mix of days. The number of weekdays, weekend days and timing of holidays in a given timeframe can have a positive or negative impact on comparable sales. The Company refers to this impact as the calendar shift/trading day adjustment. This impact varies geographically due to consumer spending patterns and has the greatest impact on monthly comparable sales. Typically, the annual impact is minimal, with the exception of leap years.
- Systemwide sales include sales at all McDonald's and Boston Market restaurants, whether operated by the Company, by franchisees or by affiliates. While sales by franchisees and affiliates are not recorded as revenues by the Company, management believes the information is important in understanding the Company's financial performance because it is the basis on which the Company calculates and records franchised and affiliated revenues and is indicative of the financial health of our franchisee base.
- Return on incremental invested capital (ROIIC) is a measure reviewed by management over one-year and three-year time periods to evaluate the overall profitability of the business units, the effectiveness of capital deployed and the future allocation of capital. The return is calculated by dividing the change in operating income plus depreciation and amortization (numerator) by the adjusted cash used for investing activities (denominator), primarily capital expenditures. The calculation assumes a constant average foreign exchange rate over the periods included in the calculation.

Strategic direction and financial performance

The unique business relationship among the Company, its franchisees and suppliers (collectively referred to as the System) has been key to McDonald's success over the years. This business model enables McDonald's to play an integral role in the communities we serve and consistently deliver relevant restaurant experiences to customers. In addition, our strategic alignment facilitates our ability to implement innovative ideas and profitably grow our business.

The Company is focused on increasing McDonald's relevance to consumers through the execution of multiple initiatives under our Plan to Win in order to be better, not just bigger. This plan is designed to deliver operational excellence and leadership marketing leveraged around five key drivers of exceptional customer experiences – people, products, place, price and promotion. Our long-term financial targets include average annual Systemwide sales and revenue growth of 3% to 5%; average annual operating income growth of 6% to 7%; and annual returns on incremental invested capital in the high teens. These targets exclude the impact of foreign currency translation.

Since implementing our Plan to Win, we improved the taste of many of our menu items and have introduced a variety of new menu choices such as premium salads, premium burgers and additional chicken offerings in many markets worldwide. We appeal to a broad range of customer preferences using a locally relevant three-tier menu strategy featuring premium salad and sandwich selections, classic menu favorites and everyday affordable offerings. We strive for continuous improvement in our training programs and restaurant execution through a comprehensive restaurant operations improvement process to enable and motivate franchisees and restaurant employees to improve the customer experience. In addition, our "i'm lovin' it" global marketing theme continues to evolve to extend our marketing reach to consumers via print, billboards and digital communications in addition to television advertising.

These efforts have increased our consumer relevance and delivered strong results in each of the last three years with revenue growth, operating income growth and returns on incremental invested capital meeting or exceeding our long-term financial targets. In addition, we demonstrated our commitment to shareholders by returning $8.3 billion to shareholders through dividends paid and shares acquired from 2004 through 2006.

In 2006, the Company's increased relevance contributed to more customers visiting our restaurants, helping drive global comparable sales up 5.7% and extending our consecutive monthly increases to 44 months through December 2006.

The momentum of our U.S. business continued as a result of further strengthening our robust breakfast business and expanding our beverage, salad and chicken offerings, including the successful introductions of Premium Roast Coffee, the Asian Salad and the Snack Wrap. Initiatives such as reimaging restaurants, extending operating hours and providing cashless payment options helped make McDonald's more inviting and convenient for customers.

In Europe, we built momentum using locally relevant menu offerings such as premium burgers and classic menu favorites, as well as value platforms such as Ein Mal Eins in Germany and Pound Saver in the U.K. The markets provided predictable menu choice and variety through popular food promotions, and engaged consumers with innovative marketing. Europe's results were driven by strong performance in France, Germany and most other markets as well as significantly improved performance in the U.K. We also made progress improving consumer perceptions in Europe, including the U.K., by aggressively communicating McDonald's food quality, nutrition and employment facts. In addition, to enhance local relevance by having local franchisees operate more restaurants and to improve returns, we reduced our percentage of Company-operated restaurants in the U.K. from 63% at the end of 2005 to 54% at the end of 2006. We are encouraged by our momentum in Europe and confident that our combined initiatives designed to enhance the customers' experience will continue to drive growth over the long term.

In APMEA, Systemwide sales and revenue growth were primarily driven by strong comparable sales in Japan and Australia and new restaurant expansion and positive comparable sales in China. Strategic menu pricing in Japan and China contributed to this segment's performance. In 2006, we also entered into a strategic alliance with Sinopec, China's largest petroleum retailer. This agreement provides us the opportunity to co-develop drive-thru restaurants at existing and new Sinopec locations, positioning us to capitalize on changing consumer lifestyles in China. We believe that the long-term growth potential for our business in China is substantial and we are well-positioned to capture the opportunity.

We continue to focus our management and financial resources on the core McDonald's business as the opportunities for growth remain significant. Accordingly, during 2006, we disposed of our entire investment in Chipotle via public stock offerings and an October tax-free exchange for McDonald's common stock. These transactions provided the Company with $329 million in cash proceeds and facilitated the acquisition of 18.6 million shares of McDonald's stock via the exchange.

In 2006, our strong global performance generated $4.3 billion of cash provided by operations. About $1.7 billion of this cash was reinvested in our business primarily to remodel existing restaurants and build new ones. We increased our annual dividend nearly 50% to $1 per share. We also acquired 98.4 million shares through both shares repurchased and shares accepted in connection with the Chipotle exchange. In addition, we paid down $2.3 billion of debt in 2006 reducing the 2005 increase related to the Homeland Investment Act.

To improve local relevance, profitability and returns, we continually evaluate ownership structures in our markets. The ownership mix in a given market depends on current and potential results, the risks associated with operating in certain countries, and legal and regulatory constraints.

As part of this evaluation, in 2006, we established a target of having less than 30% Company-operated restaurants in each of our major consolidated markets and began working toward this goal, specifically in the U.K. and Canada. For certain markets like China, we believe owning and operating the restaurants is prudent until the legal environment in these countries becomes more conducive to franchising.

In addition to our franchising efforts discussed above, we have identified markets with about 2,300 restaurants collectively, primarily Company-operated restaurants in Latin America and APMEA, that we intend to transition to a developmental license structure. Under a developmental license, a local entrepreneur owns the business, including controlling the real estate, and uses his/her capital and local knowledge to build the Brand and optimize sales and profitability over the long term. Under this arrangement, the Company collects a royalty, which varies by market, based on a percent of sales, but does not invest any capital. During 2006, this royalty averaged about five percent of sales. We have successfully used this structure for more than 15 years, and currently have 36 countries that are solely operated by developmental licensees. In addition to the financial benefits the Company achieves when markets are developmentally licensed

such as reduced capital spending, improved returns and a stable stream of royalties, this strategy allows the local owner to improve relevance and accelerate growth in the market, and allows management to focus most of their time and energy on the markets that have the largest impact on results.

Highlights from the year included:

- Comparable sales increased 5.7% building on a 3.9% increase in 2005.
- Systemwide sales increased 7% both as reported and in constant currencies.
- Consolidated revenues increased 9% (7% in constant currencies).
- Income from continuing operations per common share was $2.30 compared with $2.03 in 2005, an increase of 13%.
- Cash provided by operations totaled $4.3 billion and capital expenditures totaled $1.7 billion.
- The Company increased the annual dividend nearly 50% to $1.00 per share, or $1.2 billion in total. The Company also acquired 98.4 million shares for $3.7 billion, driving a reduction of about 5% of total shares outstanding at year end compared with 2005.
- One-year ROIIC was 24.9% and three-year ROIIC was 41.3% for 2006.

Outlook for 2007

The McDonald's System is energized by our current momentum. We intend to build on this momentum by further enhancing every element of the Brand experience and strengthening our connection with customers to capture the tremendous opportunities that lie ahead. We will do this by continuing to execute our Plan to Win with a strategic focus on our customers and restaurants, while continuing to exercise disciplined financial management.

We are confident that our Plan to be better, not just bigger, supported by the alignment of our unique system of franchisees and suppliers, will continue to drive enduring profitable growth. Our financial targets, previously discussed, focus management on those opportunities that best optimize shareholder value over the long term.

In 2007, we will continue to leverage our three-tier menu approach featuring premium selections, core menu favorites and everyday affordable offerings to appeal to a broad range of consumers. We will complement this three-tier strategy with permanent and limited time offerings of new products that enhance menu choice, variety and value.

In the U.S., our strategies focus on chicken, breakfast, beverages and convenience. We are introducing Snack Wrap variations and the new Southwest Salad as well as additional breakfast offerings. We will also enhance the drive-thru experience by continuing to optimize the layout of restaurant interiors and exteriors.

In Europe, we will continue to attract customers with a variety of new food offerings, such as Premium Chicken Sandwiches and Snack Wraps, while leveraging the strength of our everyday affordability platforms. Building greater brand trust will remain a priority in Europe with ongoing aggressive communication efforts surrounding our food quality, nutrition and employment image. In addition, we will focus on remodeling restaurants and improving operations to enhance local relevance and upgrade the customer experience.

In APMEA, where a large percentage of the population already eats breakfast away from home, we are introducing or expanding breakfast as well as extending restaurant operating hours. We will also continue to reinforce everyday value offerings and work on optimizing our menu pricing structure to enhance profitability.

We will continue to support consumers' desire to make balanced lifestyle choices by educating them about our food's nutritional value and encouraging greater physical activity. We added nutrition labeling to the packaging of many of our branded core menu items in more than 25,000 restaurants worldwide in 2006. We will extend this effort to cover even more restaurants and products in 2007. We will also continue to play a leadership role in addressing children's well-being as we pursue initiatives designed to positively affect children's choice and activity. This includes committing a large portion of our children's marketing budget toward communications that encourage kids to be more active – physically and mentally.

We will also work to further enhance the customer experience by refining and executing our restaurant operations improvement process and expanding the use of our new point of sale software (POS), which was in approximately 8,400 restaurants as of year-end 2006. Tests indicate this new POS helps improve order accuracy and drive-thru service speed. In addition, we will continue developing a new flexible operating system that takes a modular "plug and play" approach to kitchen configuration and restaurant operations. In the future, this system will enable greater menu flexibility based on local market needs while making it easier for crew to satisfy customers.

Due to our expectations for continued strong results, relatively stable capital expenditures over the next few years, and the Company's intent on maintaining current debt-to-capital levels of 35% to 40%, we believe that cash available for dividends and share repurchases will continue to grow. We expect our share repurchase activity will continue to yield reductions in share count in the years ahead given our reduction in equity compensation and fewer stock options outstanding, compared to prior years.

In 2007, we will continue to reduce the percentage of Company-operated restaurants in the U.K. and Canada, and we will continue to pursue the developmental license strategy described earlier.

The previously mentioned 2,300 restaurants identified for potential conversion to developmental licensees represented nearly $3 billion in sales in 2006, but only generated $30 million in operating income after impairment and other charges. To achieve these results, we spent about $180 million in selling, general & administrative expenses and invested more than $100 million in capital expenditures. As appropriate, we may license some of these markets as a group to a single developmental licensee. These 2,300 restaurants are about 75% Company-operated and represent about $3 billion in combined net investment, which includes approximately $800 million in accumulated currency translation losses reflected in shareholders' equity on our balance sheet.

Our intent is to complete these transactions by the end of 2008. If we are able to complete these transactions, we do not anticipate recovering either the $800 million in historical currency translation losses or most of the remaining $2.2 billion in net book value in the form of sales proceeds, and therefore, we expect that the loss, in the aggregate, would be significant. We will continue impairment testing for these assets annually and as otherwise required by applicable accounting standards. In particular, our annual impairment testing for these assets is based on the assumption that these markets will continue to be operated under the existing ownership structure until it becomes probable that a transaction will occur within 12 months, and we can reasonably estimate our sales proceeds. The timing and amount of any loss for a particular transaction will depend on individual circumstances. In 2006, we completed the transfer of 121 restaurants in four markets to developmental licensees and recorded pretax losses totaling $36 million related to this strategy.

While the Company does not provide specific guidance on net income per share, the following information is provided to assist in analyzing the Company's results:

- Changes in Systemwide sales are driven by comparable sales and net restaurant unit expansion. The Company expects net restaurant additions to add slightly more than 1 percentage point to 2007 Systemwide sales growth (in constant currencies), most of which will be due to the 359 net traditional McDonald's restaurants added during 2006. In 2007, the Company expects to open about 800 McDonald's restaurants (700 traditional and 100 satellites). We expect net additions of about 400 (450 net traditional additions and 50 net satellite closings).
- The Company does not provide specific guidance on changes in comparable sales. However, as a perspective, assuming no change in cost structure, a 1 percentage point increase in U.S. comparable sales would increase annual net income per share by about 2.5 cents. Similarly, an increase of 1 percentage point in Europe's comparable sales would increase annual net income per share by about 2 cents.
- The primary food commodities impacting McDonald's business are beef and chicken. In 2007, U.S. beef costs are expected to be down slightly, while we expect U.S. chicken costs to rise. In Europe, both beef and chicken costs are expected to increase slightly in 2007.
- The Company expects full-year 2007 selling, general & administrative expenses to decline modestly as a percent of revenues and Systemwide sales compared with 2006.
- A significant part of the Company's operating income is generated outside the U.S., and about 80% of its total debt is denominated in foreign currencies. Accordingly, earnings are affected by changes in foreign currency exchange rates, particularly the Euro and the British Pound. If the Euro and the British Pound both move 10% in the same direction compared with 2006, the Company's annual net income per share would change by about 7 cents to 8 cents.
- In 2007, based on current business performance and plans, the Company expects to maintain a debt-to-capital ratio of 35% to 40%. Based on current interest and foreign currency exchange rates, the Company expects interest expense in 2007 to remain relatively flat compared with 2006, while it expects interest income to decrease about 40% to 50% due to lower cash balances.
- The Company expects the effective income tax rate for the full-year 2007 to be approximately 31% to 33%, although some volatility may be experienced between the quarters in the normal course of business.
- The Company expects capital expenditures for 2007 to be approximately $1.9 billion. About half of this amount will be reinvested in existing restaurants while the rest will primarily be used to build new restaurants.
- In 2006, the Company returned nearly $5 billion to shareholders. In 2007 and 2008 combined, the Company expects to return at least an additional $5 billion through a combination of share repurchases and dividends.

CONSOLIDATED OPERATING RESULTS

Operating results

	2006		*2005*		*2004*
DOLLARS IN MILLIONS, EXCEPT PER SHARE DATA	***Amount***	***Increase/ (decrease)***	*Amount*	*Increase/ (decrease)*	*Amount*
Revenues					
Sales by Company-operated restaurants	**$ 16,083**	**9%**	$ 14,726	7%	$ 13,755
Revenues from franchised and affiliated restaurants	**5,503**	**8**	5,106	6	4,839
Total revenues	**21,586**	**9**	19,832	7	18,594
Operating costs and expenses					
Company-operated restaurant expenses	**13,542**	**8**	12,575	8	11,688
Franchised restaurants–occupancy expenses	**1,060**	**4**	1,021	2	1,003
Selling, general & administrative expenses	**2,338**	**8**	2,167	12	1,939
Impairment and other charges (credits), net	**134**	**nm**	(28)	nm	281
Other operating expense, net	**67**	**(36)**	105	(28)	145
Total operating costs and expenses	**17,141**	**8**	15,840	5	15,056
Operating income	**4,445**	**11**	3,992	13	3,538
Interest expense	**402**	**13**	356	(1)	358
Nonoperating income, net	**(123)**	**nm**	(38)	81	(21)
Income from continuing operations before provision for income taxes	**4,166**	**13**	3,674	15	3,201
Provision for income taxes	**1,293**	**19**	1,088	18	923
Income from continuing operations	**2,873**	**11**	2,586	14	2,278
Income from discontinued operations (net of taxes of $97, $11 and $1), including gain on Chipotle disposition of $653	**671**	**nm**	16	nm	1
Net income	**$ 3,544**	**36%**	$ 2,602	14%	$ 2,279
Income per common share–diluted					
Continuing operations	**$ 2.30**	**13%**	$ 2.03	13%	$ 1.79
Discontinued operations, including gain on Chipotle disposition of $0.52	**0.53**	**nm**	0.01	nm	–
Net income per common share–diluted	**$ 2.83**	**39%**	$ 2.04	14%	$ 1.79
Weighted-average common shares outstanding–diluted	**1,251.7**		1,274.2		1,273.7

nm Not meaningful.

Net income and diluted net income per common share

In 2006, net income and diluted net income per common share were $3.5 billion and $2.83. During 2006, the Company disposed of its entire investment in Chipotle via public stock offerings and a tax-free exchange for McDonald's common stock and as a result, has reflected Chipotle's results of operations and transaction gains as discontinued operations. The 2006 results included $671 million of income, or $0.53 per share, related to discontinued operations. Income from continuing operations was $2.9 billion or $2.30 per share, which included impairment and other charges of $134 million ($98 million after tax or $0.07 per share), as well as net incremental tax expense of $0.01 per share primarily related to a one-time impact from a tax law change in Canada.

In 2005, net income and diluted net income per common share were $2.6 billion and $2.04. Income from discontinued operations was $16 million or $0.01 per share, while income from continuing operations was $2.6 billion or $2.03 per share. The 2005 results from continuing operations included a net tax benefit of $73 million or $0.05 per share comprised of $179 million or $0.14 per share tax benefit due to a favorable audit settlement of the Company's 2000-2002 U.S. tax returns and $106 million or $0.09 per share of incremental tax expense resulting from the decision to repatriate certain foreign earnings under the Homeland Investment Act (HIA). In addition, 2005 included impairment and other charges (credits), net of $28 million pretax income ($12 million after tax or $0.01 per share).

In 2004, net income and diluted net income per common share were $2.3 billion and $1.79 and income from continuing operations was also $2.3 billion or $1.79 per share. The 2004 income from continuing operations included pretax operating charges of $151 million ($99 million after tax or $0.08 per share) related to a lease accounting correction and $130 million ($116 million after tax or $0.09 per share) related to impairment charges. Results also included pretax nonoperating income of $49 million ($49 million after tax or $0.04 per share) relating to the sale of the Company's interest in a U.S. real estate partnership that resulted in the utilization of certain previously unrealized capital loss carryforwards.

Refer to the Impairment and other charges (credits), net and Discontinued operations sections for further discussion.

In 2006, diluted weighted-average shares outstanding decreased primarily due to treasury stock acquisitions exceeding stock option exercises in 2005 and 2006. The Company acquired 98.4 million shares, or $3.7 billion through both shares repurchased and shares accepted in connection with the Chipotle exchange, driving a reduction of about 5% of total shares outstanding compared with year-end 2005.

For 2005, diluted weighted-average shares outstanding were relatively flat compared to 2004. Shares outstanding at the beginning of 2005 were higher than the prior year due to stock options exercised exceeding treasury stock purchased during 2004. Treasury stock purchased in 2005 offset this higher balance and the impact of options exercised during the year.

Impact of foreign currency translation on reported results

While changing foreign currencies affect reported results, McDonald's mitigates exposures, where practical, by financing in local currencies, hedging certain foreign-denominated cash flows, and purchasing goods and services in local currencies.

In 2006, foreign currency translation had a positive impact on consolidated revenues, operating income and net income primarily due to the stronger Euro, Canadian Dollar and British Pound. Consolidated revenues were positively impacted by the stronger Brazilian Real. In 2005, revenues were positively impacted by the Brazilian Real and the Canadian Dollar, but operating income and net income were minimally impacted by foreign currency translation. In 2004, foreign currency translation had a positive impact on consolidated revenues, operating income and net income due to the strengthening of several major currencies, primarily the Euro.

Impact of foreign currency translation on reported results

	Reported amount			*Currency translation benefit/(cost)*		
IN MILLIONS, EXCEPT PER SHARE DATA	***2006***	*2005*	*2004*	***2006***	*2005*	*2004*
Revenues	**$ 21,586**	$ 19,832	$ 18,594	**$ 271**	$ 238	$ 779
Company-operated margins[(1)]	**2,497**	2,099	2,003	**35**	19	91
Franchised margins[(1)]	**4,435**	4,078	3,832	**23**	15	139
Selling, general & administrative expenses	**2,338**	2,167	1,939	**(19)**	(17)	(57)
Operating income	**4,445**	3,992	3,538	**29**	11	160
Income from continuing operations	**2,873**	2,586	2,278	**18**	1	80
Net income	**3,544**	2,602	2,279	**18**	1	80
Income from continuing operations per common share–diluted	**2.30**	2.03	1.79	**.02**	–	.06
Net income per common share–diluted	**2.83**	2.04	1.79	**.01**	–	.06

(1) Includes McDonald's restaurants only.

Revenues

In both 2006 and 2005, consolidated revenue growth was driven by positive comparable sales as well as stronger foreign currencies.

Revenues

			Amount	Increase/(decrease)		Increase/(decrease) excluding currency translation	
DOLLARS IN MILLIONS	**2006**	2005	2004	**2006**	2005	**2006**	2005
Company-operated sales:							
U.S.	**$ 4,410**	$ 4,098	$ 3,828	**8%**	7%	**8%**	7%
Europe	**5,885**	5,465	5,174	**8**	6	**6**	5
APMEA	**2,674**	2,453	2,390	**9**	3	**8**	-
Latin America	**1,552**	1,237	933	**26**	33	**21**	23
Canada	**882**	765	730	**15**	5	**8**	(2)
Corporate & Other	**680**	708	700	**(4)**	1	**(4)**	1
Total	**$ 16,083**	$ 14,726	$ 13,755	**9%**	7%	**8%**	5%
Franchised and affiliated revenues:(1)							
U.S.	**$ 3,054**	$ 2,857	$ 2,697	**7%**	6%	**7%**	6%
Europe	**1,753**	1,607	1,563	**9**	3	**8**	3
APMEA	**379**	362	331	**5**	10	**7**	7
Latin America	**107**	90	75	**18**	20	**16**	15
Canada	**199**	183	168	**9**	9	**2**	1
Corporate & Other	**11**	7	5	**68**	40	**68**	40
Total	**$ 5,503**	$ 5,106	$ 4,839	**8%**	6%	**7%**	5%
Total revenues:							
U.S.	**$ 7,464**	$ 6,955	$ 6,525	**7%**	7%	**7%**	7%
Europe	**7,638**	7,072	6,737	**8**	5	**6**	5
APMEA	**3,053**	2,815	2,721	**8**	3	**8**	1
Latin America	**1,659**	1,327	1,008	**25**	32	**20**	22
Canada	**1,081**	948	898	**14**	6	**7**	(2)
Corporate & Other	**691**	715	705	**(3)**	1	**(3)**	1
Total	**$ 21,586**	$ 19,832	$ 18,594	**9%**	7%	**7%**	5%

(1) Includes the Company's revenues from conventional franchisees, developmental licensees and affiliates.

In the U.S., the increase in revenues in 2006 was primarily driven by our popular breakfast menu featuring Premium Roast Coffee, new products like our Asian Salad and Snack Wrap, and a wide variety of premium chicken options, as well as continued focus on everyday value and convenience. In 2005, the increase in revenues was driven by multiple initiatives that delivered variety like the introduction of Premium Chicken Sandwiches, convenience such as cashless payment options and extended hours as well as our focus on value.

Europe's constant currency increase in revenues in 2006 was primarily due to strong comparable sales in France, Germany and Russia (which is entirely Company-operated). In addition, revenues in 2006 benefited from positive comparable sales in the U.K., which were offset by the impact of the market's Company-operated restaurant closings and sales to franchisees and affiliates throughout the year. In 2005, the increase in revenues was due to strong comparable sales in Russia and positive comparable sales in France and Germany, partly offset by negative comparable sales in the U.K.

In APMEA, the constant currency increase in revenues in 2006 was primarily driven by the consolidation of Malaysia for financial reporting purposes due to an increase in the Company's ownership during the first quarter 2006, expansion and positive comparable sales in China, as well as positive comparable sales in most markets. The increase was partly offset by the 2005 conversion of the Philippines and Turkey (about 325 restaurants) to developmental licensee structures. In 2005, revenues benefited from strong comparable sales in Australia and Taiwan, and were negatively impacted by the Philippines and Turkey as mentioned above. In addition, revenues in 2005 benefited from expansion in China, partly offset by that market's negative comparable sales.

The following tables present Systemwide sales growth rates and the increase in comparable sales for McDonald's restaurants:

Systemwide sales-McDonald's restaurants

	Increase		Increase excluding currency translation	
	2006	2005	**2006**	2005
U.S.	**6%**	5%	**6%**	5%
Europe	**8**	4	**7**	4
APMEA	**5**	6	**8**	6
Latin America	**21**	21	**16**	13
Canada	**12**	8	**5**	1
Total	**7%**	6%	**7%**	5%

Comparable sales-McDonald's restaurants

	Increase		
	2006	2005	2004
U.S.	**5.2%**	4.4%	9.6%
Europe	**5.8**	2.6	2.4
APMEA	**5.5**	4.0	5.6
Latin America	**14.6**	11.6	13.0
Canada	**4.7**	0.3	5.4
Total	**5.7%**	3.9%	6.9%

Operating margins

Operating margin information and discussions relate to McDonald's restaurants only and exclude non-McDonald's brands.

• *Franchised margins*

Franchised margin dollars represent revenues from franchised and affiliated restaurants less the Company's occupancy costs (rent and depreciation) associated with those sites. Franchised margin dollars represented about 65% of the combined operating margins in 2006, 2005 and 2004. Franchised margin dollars increased $357 million or 9% (8% in constant currencies) in 2006 and $246 million or 6% as reported and in constant currencies in 2005. The U.S. and Europe segments accounted for more than 85% of the franchised margin dollars in all three years.

Franchised margins-McDonald's restaurants

IN MILLIONS	**2006**	2005	2004
U.S.	**$2,513**	$2,326	$2,177
Europe	**1,357**	1,235	1,195
APMEA	**333**	314	284
Latin America	**77**	62	45
Canada	**155**	141	131
Total	**$4,435**	$4,078	$3,832
PERCENT OF REVENUES			
U.S.	**82.3%**	81.4%	80.7%
Europe	**77.4**	76.9	76.5
APMEA	**87.8**	86.7	85.7
Latin America	**72.0**	68.5	60.1
Canada	**77.6**	76.8	78.0
Total	**80.7%**	80.0%	79.3%

The consolidated franchised margin percent increased in 2006 and 2005 due to strong comparable sales, partly offset by higher rent expense in several markets.

• *Company-operated margins*

Company-operated margin dollars represent sales by Company-operated restaurants less the operating costs of these restaurants. Company-operated margin dollars increased $398 million or 19% (17% in constant currencies) in 2006 and increased $96 million or 5% (4% in constant currencies) in 2005. The U.S. and Europe segments accounted for more than 70% of the Company-operated margin dollars in all three years.

Company-operated margins-McDonald's restaurants

IN MILLIONS	**2006**	2005	2004
U.S.	**$ 843**	$ 768	$ 731
Europe	**960**	817	807
APMEA	**341**	267	264
Latin America	**212**	141	89
Canada	**141**	106	112
Total	**$2,497**	$2,099	$2,003
PERCENT OF SALES			
U.S.	**19.1%**	18.8%	19.1%
Europe	**16.3**	14.9	15.6
APMEA	**12.8**	10.9	11.0
Latin America	**13.7**	11.4	9.5
Canada	**15.9**	13.9	15.3
Total	**16.2%**	15.0%	15.3%

In the U.S., the Company-operated margin percent increased in 2006 due to positive comparable sales, partly offset by higher labor costs primarily due to a higher average hourly rate, higher commodity costs, including paper, and higher utilities. In 2005, the Company-operated margin percent benefited from positive comparable sales, more than offset by higher commodity, labor and occupancy costs.

Europe's Company-operated margin percent increased in 2006 primarily due to strong comparable sales, partly offset by higher labor costs throughout the segment. In addition, initiatives in the U.K. such as the closing of certain underperforming restaurants in the first quarter and the sales of Company-operated restaurants to franchisees and affiliates throughout the year, contributed to the increase. In 2005, the Company-operated margin percent decreased due to higher labor costs and negative comparable sales in the U.K., partly offset by strong performance in Russia. In addition, higher beef costs in 2005 had a negative impact across the segment.

In APMEA, the Company-operated margin percent in 2006 reflected improving results in China and many other markets. In 2005, the Company-operated margin percent was negatively impacted by weak results in South Korea, partly offset by improvements in Hong Kong.

• *Supplemental information regarding Company-operated McDonald's restaurants*

We continually review our restaurant ownership mix with a goal of improving local relevance, profits and returns. In most cases, franchising is the best way to achieve these goals. Although direct restaurant operation is significantly more capital-intensive relative to franchising and results in lower operating margins as a percent of revenues, Company-operated restaurants are important to our success in both mature and developing markets. In our Company-operated restaurants, we develop and refine operating standards, marketing concepts and product and pricing strategies, so that we introduce Systemwide only those that we believe are most beneficial. In addition, we firmly believe that operating restaurants is paramount to being a credible franchisor.

We report results for Company-operated restaurants based on their sales, less costs directly incurred by that business including occupancy costs. We report the results for franchised restaurants based on franchised revenues, less associated occupancy costs.

For this reason and because we manage our business based on geographic segments and not on the basis of our ownership structure, we do not specifically allocate selling, general & administrative expenses and other operating (income) expenses to Company-operated or franchised restaurants. Other operating items that relate to the Company-operated restaurants generally include gains on sales of restaurant businesses and write-offs of equipment and leasehold improvements.

We believe the following information about Company-operated restaurants in our most significant markets will provide an additional perspective on this business. Management responsible for our Company-operated restaurants in these markets analyzes the Company-operated business on this basis to assess its performance. Management of the Company also considers this information when evaluating our restaurant ownership mix, subject to other relevant considerations.

The tables below seek to illustrate the two components of our Company-operated margins. The first of these relates exclusively to restaurant operations, which we refer to below as "Restaurant margin." The second relates to the value of our Brand and the real estate interest we retain for which we charge rent and service fees. We refer to this component as "Brand/real estate margin." Both Company-operated and franchised restaurants are charged rent and service fees, although rent and service fees for Company-operated restaurants are eliminated in consolidation. Rent and service fees for both restaurant ownership types are based on a percentage of sales, and the actual percentage attributable to rent varies depending on the level of McDonald's investment in the restaurant. Service fees may also vary by market.

As shown below, in disaggregating the components of our Company-operated margins, certain costs with respect to Company-operated restaurants would be reflected in Brand/real estate margin. Those costs consist of rent payable by McDonald's to third parties on leased sites and depreciation for buildings and leasehold improvements and constitute a portion of Occupancy & other operating expenses recorded in the Consolidated statement of income. Restaurant margin would reflect rent and service fees paid, and those fees would be accounted for as income in calculating Brand/real estate margin.

While we believe that the following information provides a perspective in evaluating our Company-operated business, it is not intended as a measure of our operating performance or as an alternative to operating income or operating margins as reported by the Company in accordance with accounting principles generally accepted in the U.S. In particular, as noted above, we do not allocate selling, general & administrative expenses to our Company-operated business. An estimate of costs to support this business was made by the U.S., Canada and our three major markets in Europe. We believe, on average, that a range of $40,000 to $50,000 per restaurant is typical, but the actual costs will vary by restaurant depending on local circumstances and the organizational structure of the market. These costs reflect the indirect services we believe are necessary to provide the appropriate support of the restaurant.

	U.S.			Europe			Canada		
DOLLARS IN MILLIONS	***2006***	*2005*	*2004*	***2006***	*2005*	*2004*	***2006***	*2005*	*2004*
As reported									
Number of Company-operated restaurants at year end	**2,104**	2,097	2,002	**2,253**	2,382	2,358	**488**	499	474
Sales by Company-operated restaurants	**$ 4,410**	$4,098	$ 3,828	**$ 5,885**	$ 5,465	$ 5,174	**$ 882**	$ 765	$ 730
Company-operated margin	**$ 843**	$ 768	$ 731	**$ 960**	$ 817	$ 807	**$ 141**	$ 106	$ 112
Restaurant margin									
Company-operated margin	**$ 843**	$ 768	$ 731	**$ 960**	$ 817	$ 807	**$ 141**	$ 106	$ 112
Plus:									
Outside rent expense(1)	**82**	79	67	**229**	225	207	**22**	19	18
Depreciation - buildings & leasehold improvements(1)	**74**	68	60	**98**	97	93	**9**	8	7
Less:									
Rent & service fees(2)	**(651)**	(605)	(563)	**(1,099)**	(1,048)	(1,001)	**(128)**	(111)	(106)
Restaurant margin	**$ 348**	$ 310	$ 295	**$ 188**	$ 91	$ 106	**$ 44**	$ 22	$ 31
Brand/real estate margin									
Rent & service fees(2)	**$ 651**	$ 605	$ 563	**$ 1,099**	$ 1,048	$ 1,001	**$ 128**	$ 111	$ 106
Less:									
Outside rent expense(1)	**(82)**	(79)	(67)	**(229)**	(225)	(207)	**(22)**	(19)	(18)
Depreciation - buildings & leasehold improvements(1)	**(74)**	(68)	(60)	**(98)**	(97)	(93)	**(9)**	(8)	(7)
Brand/real estate margin	**$ 495**	$ 458	$ 436	**$ 772**	$ 726	$ 701	**$ 97**	$ 84	$ 81

(1) Represents certain costs recorded as Occupancy & other operating expenses in the Consolidated statement of income - rent payable by McDonald's to third parties on leased sites and depreciation for buildings and leasehold improvements. This adjustment made to reflect these occupancy costs in Brand/real estate margin. The relative percentage of sites that are owned versus leased varies by country.

(2) Reflects average Company-operated rent and service fees (as a percentage of 2006 sales: U.S. - 14.8%; Europe - 18.7%; Canada - 14.6%). This adjustment made to reflect charge in Restaurant margin and income in Brand/real estate margin. Countries within Europe have varying economic profiles and a wide range of rent and service fees as a percentage of sales.

Selling, general & administrative expenses

Consolidated selling, general & administrative expenses increased 8% in 2006 and 12% in 2005 (7% and 11% in constant currencies). In 2006, the increase was due to higher employee-related costs, including performance-based compensation expense. Share-based compensation expense due to the adoption of Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (SFAS No. 123(R)) accounted for a majority of the constant currency increase in 2005.

Selling, general & administrative expenses

		Amount		Increase/(decrease)		Increase/(decrease) excluding currency translation		Pro forma increase/(decrease) excluding currency translation
DOLLARS IN MILLIONS	**2006**	2005	2004	**2006**	2005	**2006**	2005	2005[2]
U.S.	**$ 727**	$ 697	$ 602	**4%**	16%	**4%**	16%	4%
Europe	**610**	556	485	**10**	15	**8**	15	4
APMEA	**238**	218	189	**9**	15	**9**	13	1
Latin America	**159**	138	107	**16**	29	**12**	21	12
Canada	**94**	75	64	**25**	17	**17**	9	(3)
Corporate & Other[1]	**510**	483	492	**5**	(2)	**5**	(2)	(16)
Total	**$ 2,338**	$ 2,167	$ 1,939	**8%**	12%	**7%**	11%	(1)%

(1) Included in the Corporate & Other segment are home office support costs in areas such as facilities, finance, human resources, information technology, legal, marketing, restaurant operations, supply chain and training. Effective January 1, 2005, there was a reclassification of certain information technology expenses totaling approximately $22 million from the Corporate & Other segment to the U.S. segment.

(2) On January 1, 2005, the Company adopted SFAS No. 123(R). This accounting standard requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Share-based compensation was included as a pro forma disclosure in the notes to the consolidated financial statements for years prior to the adoption. For 2004, pro forma share-based expense as reported in the Company's year-end 2004 Form 10-K was $156 million after tax, of which $7 million of expense related to restricted stock units (RSUs) was included in net income. The remaining $149 million after tax ($241 million pretax) was disclosed in a note to the consolidated financial statements, as required, for pro forma purposes. The segments reflected the following pro forma share-based expense in 2004 (in millions): U.S.-$69; Europe-$49; APMEA-$22; Latin America-$9; Canada-$8; Corporate & Other-$84; Total-$241. The above pro forma increase/(decrease) is using an adjusted 2004 expense which is calculated by adding pro forma share-based expense to reported selling, general and administrative expenses.

Selling, general & administrative expenses as a percent of revenues were 10.8% in 2006 compared with 10.9% in 2005 and 10.4% in 2004, and selling, general & administrative expenses as a percent of Systemwide sales were 4.1% in 2006 compared with 4.0% in 2005 and 3.8% in 2004. On a pro forma basis, share-based compensation expense would increase these ratios 1.3 and 0.5 percentage points, respectively, for 2004. Management believes that analyzing selling, general & administrative expenses as a percent of Systemwide sales, as well as revenues, is meaningful because these costs are incurred to support Systemwide restaurants.

Impairment and other charges (credits), net

On a pretax basis, the Company recorded impairment and other charges (credits), net of $134 million in 2006, ($28) million in 2005 and $281 million in 2004 associated with impairment, as well as certain strategic actions in 2006 and a lease accounting correction in 2004. McDonald's management does not include these items when reviewing business performance trends because we do not believe these items are indicative of expected ongoing results.

Impairment and other charges (credits), net

IN MILLIONS, EXCEPT PER SHARE DATA	**2006**	2005	2004
U.S.			$ 80
Europe	**$ 62**	$ 4	26
APMEA	**48**	(9)	139
Latin America	**31**	3	2
Canada			4
Corporate & Other	**(7)**	(26)	30
Total	**$ 134**	$ (28)	$ 281
After tax[1]	**$ 98**	$ (12)	$ 215
Income from continuing operations per common share-diluted	**$ .07**	$ (.01)	$ .17

(1) Certain items were not tax affected.

In 2006, the Company recorded $134 million of pretax impairment charges primarily related to the following items: losses incurred on the transfers of the Company's ownership interest in certain markets to developmental licensees ($36 million); the closing of certain restaurants in the U.K. in conjunction with an overall restaurant portfolio review ($35 million); costs to buy out certain litigating franchisees in Brazil ($29 million); asset write-offs and other charges in APMEA ($18 million); and a loss related to the decision to dispose of supply chain operations in Russia ($13 million).

In 2005, the Company recorded $23 million of pretax impairment charges primarily in South Korea. In addition, the Company recorded $51 million of pretax income, primarily due to the transfer of the Company's ownership interest in Turkey to a developmental licensee and a favorable adjustment to certain liabilities established in prior years due to lower than originally anticipated employee-related and lease termination costs.

In 2004, the Company recorded $130 million of pretax impairment charges primarily in South Korea. In addition, like other companies in the restaurant and retail industries, the Company reviewed its accounting practices and policies with respect to leasing transactions. Following this review and in consultation with its external auditors, the Company corrected an error in the amount of $151 million pretax in its prior practices to conform the lease term used in calculating straight-line rent expense with the term used to amortize improvements on leased property. The result of the correction primarily accelerated the recognition of rent expense under certain leases that include fixed-rent escalations by revising the computation of straight-line rent expense to include these escalations for certain option periods. As the correction related solely to accounting treatment, it did not affect McDonald's historical or future cash flows or the timing of payments under the related leases. Its effect on the Company's net income per share, cash provided by operations and shareholders' equity was immaterial. These adjustments primarily impacted the U.S., China and Boston Market. Other markets were less significantly impacted, as many of the leases outside of the U.S. do not contain fixed-rent escalations.

Other operating expense, net

Other operating (income) expense, net

IN MILLIONS	***2006***	*2005*	*2004*
Gains on sales of restaurant businesses	**$ (38)**	$ (45)	$ (45)
Equity in earnings of unconsolidated affiliates	**(77)**	(53)	(60)
Asset dispositions and other expense	**182**	203	250
Total	**$ 67**	$ 105	$ 145

• *Gains on sales of restaurant businesses*

Gains on sales of restaurant businesses include gains from sales of Company-operated restaurants as well as gains from exercises of purchase options by franchisees with business facilities lease arrangements (arrangements where the Company leases the businesses, including equipment, to franchisees who generally have options to purchase the businesses). The Company's purchases and sales of businesses with its franchisees and affiliates are aimed at achieving an optimal ownership mix in each market. Resulting gains or losses are recorded in operating income because the transactions are a recurring part of our business.

• *Equity in earnings of unconsolidated affiliates*

Equity in earnings of unconsolidated affiliates—businesses in which the Company actively participates but does not control—represents McDonald's share of each affiliate's results. These results are reported after interest expense and income taxes, except for partnerships in certain markets such as the U.S., which are reported before income taxes. Results in 2006 increased partly due to improved results from our Japanese affiliate. Results in 2005 decreased primarily due to results from our Japanese affiliate, which included a one-time adjustment for restaurant employees' back pay.

• *Asset dispositions and other expense*

Asset dispositions and other expense consists of gains or losses on excess property and other asset dispositions, provisions for contingencies and uncollectible receivables, and other miscellaneous expenses. These amounts can vary significantly by year. In 2006, results included a gain of $26 million related to the sale of an office building in Russia and results for 2005 reflected a $24 million charge related to a supply chain arrangement in Europe.

Operating income

Consolidated operating income in 2006 and 2005 included higher combined operating margin dollars, partly offset by higher selling, general & administrative expenses compared with the prior year.

Operating income

DOLLARS IN MILLIONS	Amount 2006	Amount 2005	Amount 2004	Increase/(decrease) 2006	Increase/(decrease) 2005	Increase/(decrease) excluding currency translation 2006	Increase/(decrease) excluding currency translation 2005	Pro forma increase/(decrease) excluding currency translation 2005(1)
U.S.	**$ 2,657**	$ 2,422	$ 2,182	**10%**	11%	**10%**	11%	15%
Europe	**1,610**	1,449	1,471	**11**	(1)	**9**	(2)	2
APMEA	**364**	345	200	**6**	72	**9**	70	92
Latin America	**55**	30	(20)	**84**	nm	**104**	nm	nm
Canada	**198**	156	178	**27**	(13)	**19**	(19)	(15)
Corporate & Other	**(439)**	(410)	(473)	**(7)**	14	**(7)**	14	27
Total	**$ 4,445**	$ 3,992	$ 3,538	**11%**	13%	**11%**	13%	21%

nm Not meaningful.

(1) For 2004, pro forma share-based expense as reported in the Company's year-end 2004 Form 10-K was $156 million after tax, of which $7 million of expense related to RSUs was included in net income. The remaining $149 million after tax ($241 million pretax) was disclosed in a note to the consolidated financial statements, as required, for pro forma purposes. The segments reflected the following pro forma share-based expense in 2004 (in millions): U.S.-$69; Europe -$49; APMEA-$22; Latin America-$9; Canada-$8; Corporate & Other-$84; Total-$241. The above pro forma increase/(decrease) is using an adjusted 2004 expense which is calculated by subtracting pro forma share-based expense from reported operating income.

When comparing 2005 to 2004, the following discussion of operating income relates to the pro forma increase/(decrease) excluding currency translation in the table above.

In 2006 and 2005, U.S. operating income included higher combined operating margin dollars compared to 2005 and 2004, respectively. In 2004, operating income included charges related to the lease accounting correction of $70 million, impairment charges of $10 million and higher asset dispositions compared to 2005.

In Europe, results for 2006 reflected strong performance in France and a gain on the sale of an office building in Russia, partly offset by impairment and other charges. In addition, 2006 operating results in the U.K. and Germany contributed to the increase in operating income. In 2005, results reflected strong performance in France and Russia, improved performance in Germany and weak results in the U.K. In addition, results in 2005 included a supply chain charge of $24 million.

In APMEA, results for 2006 were driven by strong performance in Australia as well as improved results in China and Japan, partly offset by impairment and other charges. Results for 2005 were positively impacted by strong performance in Australia, partly offset by weak results in Japan, China and South Korea. In addition, lower impairment and other charges in 2005 compared to 2004 benefited the growth rate.

In Latin America, results for 2006 and 2005 reflected continued strong sales performance across most markets. In addition, 2006 results included $31 million of impairment and other charges, primarily due to the buy out of certain litigating franchisees in Brazil. In 2005, results reflected lower asset dispositions and other expense compared to 2004.

Results for 2006 in the Corporate & Other segment reflected higher performance-based compensation, as well as costs related to our biennial worldwide operator convention. Results for 2006 and 2005 included favorable adjustments to certain liabilities established in prior years of $7 million and $26 million, respectively. In 2005, results benefited from lower share-based compensation, certain information technology expenses that are now reflected in the U.S. segment and lower performance-based compensation compared to 2004.

Interest expense

Interest expense for 2006 increased primarily due to higher average debt levels as a result of activity related to HIA, funded by local borrowings, in late 2005 and higher average interest rates. In late fourth quarter 2005, the Company repatriated approximately $3 billion of certain foreign historical earnings under HIA, which had a minimal impact on the average debt levels for 2005. Interest expense for 2005 reflected higher average interest rates and lower average debt levels compared with 2004.

Nonoperating (income) expense, net

Nonoperating (income) expense, net

IN MILLIONS	2006	2005	2004
Interest income	**$ (152)**	$ (73)	$ (28)
Translation loss	**–**	7	28
Gain on sale of U.S. real estate partnership			(49)
Other expense	**29**	28	28
Total	**$ (123)**	$ (38)	$ (21)

Interest income consists primarily of interest earned on short-term cash investments. Translation losses primarily relate to the net gains or losses on certain hedges that reduce the exposure to variability on certain intercompany foreign cash flow streams. Other expense primarily consists of gains or losses on early extinguishment of debt, amortization of deferred debt issuance costs and minority interest.

Interest income increases for 2006 and 2005 were primarily due to higher cash levels.

Provision for income taxes

In 2006, 2005 and 2004, the reported effective income tax rates were 31.0%, 29.6%, and 28.8%, respectively. The 2006 effective tax rate was negatively impacted by a tax law change in Canada. In 2005, the effective tax rate included a benefit of $179 million due to a favorable audit settlement of the Company's 2000-2002 U.S. tax returns, partly offset by approximately $106 million of expense related to the Company's decision to take advantage of the one-time opportunity provided under HIA. The effective income tax rate for 2004 benefited from an international transaction and the utilization of certain previously unrealized capital loss carryforwards.

Consolidated net deferred tax liabilities included tax assets, net of valuation allowance, of $1.1 billion in both 2006 and 2005. Substantially all of the net tax assets arose in the U.S. and other profitable markets.

Discontinued operations

In first quarter 2006, Chipotle completed an IPO of 6.1 million shares resulting in net proceeds of $121 million to Chipotle and a tax-free gain to McDonald's of $32 million reflecting an increase in the carrying value of the Company's investment as a result of Chipotle selling shares in the public offering. Concurrent with the IPO, McDonald's sold 3.0 million Chipotle shares, resulting in net proceeds to the Company of $61 million and an additional gain of $13 million after tax.

In second quarter 2006, McDonald's sold an additional 4.5 million Chipotle shares, resulting in net proceeds to the Company of $268 million and a gain of $128 million after tax, while still retaining majority ownership. In October 2006, the Company completely separated from Chipotle through a tax-free exchange of its remaining Chipotle shares for McDonald's common stock. McDonald's accepted 18.6 million shares of its common stock in exchange for the 16.5 million shares of Chipotle class B common stock held by McDonald's and recorded a tax-free gain of $480 million in the fourth quarter. As a result of the complete disposition of Chipotle, the Company has reflected Chipotle's results of operations through the date of the exchange and transaction gains as discontinued operations for all periods presented.

Accounting changes

• *SFAS Statement No. 123(R)*

Effective January 1, 2005, the Company adopted the fair value recognition provisions of Statement of Financial Accounting Standards No. 123(R) (SFAS No. 123(R)) using the modified-prospective transition method. Under this transition method, compensation cost in 2005 includes the portion vesting in the period for (1) all share-based payments granted prior to, but not vested as of January 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of the Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, and (2) all share-based payments granted subsequent to January 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). Results for prior periods have not been restated. Refer to the Summary of significant accounting policies note to the consolidated financial statements for further discussion of this item.

• *SFAS Statement No. 158*

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132 (R)* (SFAS No. 158). SFAS No. 158 requires the Company to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in the Consolidated balance sheet and to recognize changes in that funded status in the year changes occur through other comprehensive income. The Company adopted the applicable provisions of SFAS No. 158 effective December 31, 2006, as required. This resulted in a net adjustment to other comprehensive income of $89 million, for a limited number of applicable international markets.

• *EITF Issue 06-2*

In June 2006, the FASB ratified Emerging Issues Task Force (EITF) Issue 06-2, *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences* (EITF 06-2). Under EITF 06-2, compensation costs associated with a sabbatical should be accrued over the requisite service period, assuming certain conditions are met. Previously, the Company expensed sabbatical costs as incurred. The Company adopted EITF 06-2 effective January 1, 2007, as required and accordingly, we expect to record a cumulative adjustment to beginning retained earnings of approximately $35 million in the first quarter of 2007. We expect the annual impact to earnings to be insignificant.

• *FASB Interpretation No. 48*

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which is an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 are effective January 1, 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to retained earnings. We are currently evaluating the impact of adopting FIN 48 on our financial statements; however, we do not expect the impact to be significant.

• *SFAS Statement No. 157*

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. The Company expects to adopt SFAS No. 157 effective January 1, 2008, as required. We cannot reasonably estimate the impact of adoption at this time.

CASH FLOWS

The Company generates significant cash provided by operations and has substantial credit capacity to fund operating and discretionary spending such as capital expenditures, dividends, share repurchases and debt repayments.

Cash provided by operations totaled $4.3 billion and exceeded capital expenditures by $2.6 billion in 2006, while cash provided by operations totaled $4.3 billion and exceeded capital expenditures by $2.7 billion in 2005. In 2006, cash provided by operations was flat compared to 2005 due to increased operating results, offset by changes in working capital primarily due to higher 2006 income tax payments. In 2005, cash provided by operations increased $433 million compared to 2004 due to strong operating results, primarily in the U.S., and changes in working capital. The changes in working capital in 2005 benefited from lower income tax payments compared with the prior year.

Cash used for investing activities totaled $1.3 billion in 2006, a decrease of $544 million compared to 2005. The increase in capital expenditures was more than offset by the proceeds from the disposition of Chipotle as well as the sales of short-term investments. Cash used for investing activities totaled $1.8 billion in 2005, an increase of $435 million compared with 2004 primarily due to higher capital expenditures and increased purchases of restaurant businesses.

Cash used for financing activities totaled $5.2 billion in 2006 compared to cash provided by financing activities of $362 million in 2005. The 2006 activity was due to higher shares repurchased, higher net debt repayments and an increase in the common stock dividend. In 2005, cash provided by financing activities increased $2.0 billion primarily due to $2.9 billion of local borrowings related to HIA and higher proceeds from employee stock option exercises. The increase was partly offset by higher shares repurchased, higher debt repayments and an increase in the common stock dividend compared to 2004.

As a result of the above activity, the Company's cash and equivalents balance decreased $2.1 billion in 2006 to $2.1 billion, compared to an increase of $2.9 billion in 2005.

In addition to cash and equivalents and cash provided by operations, the Company can meet short-term funding needs through commercial paper borrowings and line of credit agreements.

Restaurant development and capital expenditures

In 2006, the Company opened 643 traditional McDonald's restaurants and 101 satellite restaurants (small, limited-menu restaurants for which the land and building are generally leased), and closed 284 traditional restaurants and 180 satellite restaurants. In 2005, the Company opened 558 traditional McDonald's restaurants and 120 satellite restaurants, and closed 145 traditional restaurants and 263 satellite restaurants. About 65% and 70% of McDonald's restaurant openings occurred in the major markets in 2006 and 2005, respectively.

Systemwide restaurants at year end[1]

	2006	2005	2004
U.S.	**13,774**	13,727	13,673
Europe	**6,403**	6,352	6,287
APMEA	**7,822**	7,692	7,567
Latin America	**1,656**	1,617	1,607
Canada	**1,391**	1,378	1,362
Corporate & Other[2]	**621**	631	656
Total	**31,667**	31,397	31,152

(1) Includes satellite units at December 31, 2006, 2005 and 2004 as follows: U.S.-1,254, 1,268, 1,341; Europe-201, 190, 181; APMEA (primarily Japan)-1,640, 1,730, 1,819; Latin America-6, 8, 13; and Canada-411, 395, 378.

(2) Represents Boston Market restaurants.

In 2007, the Company expects to open about 700 traditional McDonald's restaurants and 100 satellite restaurants and close about 250 traditional restaurants and 150 satellite restaurants.

Approximately 60% of Company-operated restaurants and about 85% of franchised and affiliated restaurants were located in the major markets at the end of 2006. Franchisees and affiliates operated about 75% of McDonald's restaurants at year-end 2006. Boston Market restaurants are Company-operated.

Capital expenditures increased $135 million or 8% in 2006 and $188 million or 13% in 2005. The increase in capital expenditures in both years was primarily due to increased investment in existing restaurants, primarily in the U.S. Capital expenditures in both years reflects the Company's focus on growing sales at existing restaurants, including reinvestment initiatives such as reimaging in several markets around the world. Capital expenditures related to discontinued operations were $63 million, $84 million and $98 million in 2006, 2005, and 2004, respectively, and primarily related to new Chipotle restaurants.

Capital expenditures invested in major markets, excluding Japan, represented about 70% of the total in 2006, 2005 and 2004. Japan is accounted for under the equity method, and accordingly its capital expenditures are not included in consolidated amounts.

Capital expenditures

IN MILLIONS	**2006**	2005	2004
New restaurants	**$ 530**	$ 511	$ 500
Existing restaurants	**1,075**	950	774
Other properties[1]	**137**	146	145
Total	**$ 1,742**	$ 1,607	$ 1,419
Total assets	**$ 29,024**	$ 29,989	$ 27,838

(1) Primarily corporate-related equipment and furnishings for office buildings.

New restaurant investments in both 2006 and 2005 were concentrated in markets with acceptable returns and/or opportunities for long-term growth. Average development costs vary widely by market depending on the types of restaurants built and the real estate and construction costs within each market. These costs, which include land, buildings and equipment, are managed through the use of optimally sized restaurants, construction and design efficiencies and leveraging best practices. In addition, foreign currency fluctuations affect average development costs. Although the Company is not responsible for all costs on every restaurant opened, in 2006, total development costs (consisting of land, buildings and equipment) for new traditional McDonald's restaurants averaged approximately $2.2 million in the U.S. and approximately

$1.9 million in the nine markets where development was concentrated outside the U.S. For 2007, the U.S., China and eight other consolidated markets are expected to open more than 500 restaurants.

The Company owned approximately 45% of the land and nearly 70% of the buildings for its restaurants at year-end 2006 and 2005.

Share repurchases and dividends

In 2006, the Company returned nearly $5 billion to shareholders through a combination of shares acquired and dividends paid. In 2007 and 2008 combined, the Company expects to return at least an additional $5 billion to shareholders through a combination of additional share repurchases and dividends.

Shares acquired and dividends

IN MILLIONS, EXCEPT PER SHARE DATA	**2006**	2005	2004
Number of shares acquired(1)	**98.4**	39.5	22.2
Dividends declared per share	**$ 1.00**	$ .67	$ .55
Dollar amount of shares acquired(1)	**$ 3,719**	$ 1,228	$ 605
Dividends	**1,217**	842	695
Total returned to shareholders	**$ 4,936**	$ 2,070	$ 1,300

(1) Includes 18.6 million shares or $743.6 million acquired through the October 2006 Chipotle exchange.

During 2006, the Company completed a $5.0 billion share repurchase program initially authorized by the Board of Directors in 2001. In March 2006, a new $5.0 billion program was authorized. Through 2006, approximately 36 million shares have been repurchased for $1.5 billion under this new program. The Company reduced its shares outstanding at year end by approximately 5% compared with 2005.

The Company has paid dividends on its common stock for 31 consecutive years and has increased the dividend amount every year. The Company has more than quadrupled the dividend from $0.235 per share in 2002 to $1.00 per share in 2006, totaling about $1.2 billion. This reflects the Company's confidence in the ongoing strength and reliability of its cash flow. As in the past, future dividends will be considered after reviewing profitability expectations and financing needs, and will be declared at the discretion of the Board of Directors.

FINANCIAL POSITION AND CAPITAL RESOURCES

Total assets and returns

Total assets decreased by $1.0 billion or 3% in 2006. Changes in foreign currency exchange rates increased total assets by approximately $1.3 billion in 2006, which was more than offset by a decrease in cash and the disposition of Chipotle. More than 65% of total assets were located in the consolidated major markets at year-end 2006. Net property and equipment increased $1.3 billion in 2006 and represented about 70% of total assets at year end. Total assets at December 31, 2005 included $2.9 billion of cash borrowed under HIA due to the repatriation of certain foreign earnings.

Operating income, which excludes interest income, is used to compute return on average assets, while income from continuing operations is used to calculate return on average common equity. Month-end balances are used to compute both average assets and average common equity. Assets of discontinued operations are excluded from the average assets since operating income excludes results from discontinued operations.

Returns on assets and equity

	2006	2005	2004
Return on average assets(1)	**14.9%**	14.5%	13.5%
Return on average common equity	**18.5**	17.7	17.8

(1) Return on average assets has been negatively impacted by significantly higher cash and equivalents balances due in part to the Company's repatriation of certain earnings related to HIA in 2005. Cash and equivalents reduced return on average assets by 2.2 percentage points, 1.2 percentage points and 0.6 percentage points in 2006, 2005 and 2004, respectively.

Impairment and other charges (credits), net reduced/(increased) return on average assets by 0.4 percentage points, (0.2) percentage points and 0.9 percentage points in 2006, 2005 and 2004, respectively. In addition, these items along with the 2005 net tax benefit due to a favorable audit settlement and incremental tax expense in connection with HIA and the 2004 nonoperating gain on the sale of a U.S. real estate partnership, reduced/(increased) return on average common equity by 0.6 percentage points, (0.6) percentage points and 1.3 percentage points in 2006, 2005 and 2004, respectively.

In 2006 and 2005, return on average assets and return on average common equity both benefited from strong operating results in the U.S. In addition, returns in 2006 benefited from improved results in Europe. During 2007, the Company will continue to concentrate McDonald's restaurant openings and new capital invested in markets with acceptable returns or opportunities for long-term growth.

Financing and market risk

The Company generally borrows on a long-term basis and is exposed to the impact of interest rate changes and foreign currency fluctuations. Debt obligations at December 31, 2006 totaled $8.4 billion, compared with $10.1 billion at December 31, 2005. The net decrease in 2006 was primarily due to net repayments ($2.3 billion) and Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133) noncash fair value adjustments ($82 million), partly offset by the impact of changes in exchange rates on foreign currency denominated debt ($605 million).

Debt highlights[1]

	2006	2005	2004
Fixed-rate debt as a percent of total debt[2,3,4]	**49%**	46%	59%
Weighted-average annual interest rate of total debt	**4.1**	4.1	3.9
Foreign currency-denominated debt as a percent of total debt[2,3,5]	**80**	80	72
Total debt as a percent of total capitalization (total debt and total shareholders' equity)[2]	**35**	40	39
Cash provided by operations as a percent of total debt[2]	**52**	44	44

(1) All percentages are as of December 31st, except for the weighted-average annual interest rate, which is for the year.

(2) Based on debt obligations before the effect of SFAS No. 133 fair value adjustments. This effect is excluded, as these adjustments ultimately have no impact on the obligation at maturity. See Debt financing note to the consolidated financial statements.

(3) Includes the effect of interest rate and foreign currency exchange agreements.

(4) HIA-related borrowings caused an 18 percentage point decrease in fixed-rate debt in 2005. There was a slight increase in fixed-rate debt in 2006 as the Company began to repay a portion of the HIA-related borrowings.

(5) HIA-related borrowings caused an 8 percentage point increase in foreign currency-denominated debt in 2005.

Moody's, Standard & Poor's and Fitch currently rate the Company's commercial paper P-1, A-1 and F1, respectively; and its long-term debt A2, A and A, respectively. Historically, the Company has not experienced difficulty in obtaining financing or refinancing existing debt. The Company's key metrics for monitoring its credit structure are shown in the preceding table. While the Company targets these metrics for ease of focus, it also looks at similar credit ratios that incorporate capitalized operating leases to estimate total adjusted debt. Total adjusted debt is a term that is commonly used by the rating agencies referred to above, which includes debt outstanding on the Company's balance sheet plus an adjustment to capitalize operating leases. Based on their most recent calculations, these agencies add between $7 billion and $11 billion of debt for lease capitalization purposes. The Company believes the rating agency methodology for capitalizing leases requires certain adjustments. These adjustments include: excluding percent rents in excess of minimum rents; excluding certain Company-operated restaurant lease agreements outside the U.S. that are cancelable with minimal penalties (representing approximately 25% of Company-operated restaurant minimum rents outside the U.S., based on the Company's estimate); capitalizing non-restaurant leases using a multiple of three times rent expense; and reducing total rent expense by a percentage of the annual minimum rent payments due to the Company from franchisees operating on leased sites. Based on this calculation, for credit analysis purposes, approximately $4 billion to $5 billion of future operating lease payments would be capitalized.

Certain of the Company's debt obligations contain cross-acceleration provisions and restrictions on Company and subsidiary mortgages and the long-term debt of certain subsidiaries. There are no provisions in the Company's debt obligations that would accelerate repayment of debt as a result of a change in credit ratings or a material adverse change in the Company's business. The Company has $1.3 billion available under a committed line of credit agreement (see Debt financing note to the consolidated financial statements) as well as a U.S. shelf registration of debt securities and a Euro Medium-Term Notes program that each have approximately $2.9 billion of Company authority remaining for future debt issuances.

The Company uses major capital markets, bank financings and derivatives to meet its financing requirements and reduce interest expense. The Company manages its debt portfolio in response to changes in interest rates and foreign currency rates by periodically retiring, redeeming and repurchasing debt, terminating exchange agreements and using derivatives. The Company does not use derivatives with a level of complexity or with a risk higher than the exposures to be hedged and does not hold or issue derivatives for trading purposes. All exchange agreements are over-the-counter instruments.

In managing the impact of interest rate changes and foreign currency fluctuations, the Company uses interest rate exchange agreements and finances in the currencies in which assets are denominated. All derivatives were recorded at fair value in the Company's Consolidated balance sheet at December 31, 2006 and 2005 primarily in miscellaneous other assets ($41 million and $83 million, respectively) and other long-term liabilities ($166 million and $103 million, respectively). See Summary of significant accounting policies note to the consolidated financial statements related to financial instruments for additional information regarding their use and the impact of SFAS No. 133 regarding derivatives.

The Company uses foreign currency debt and derivatives to hedge the foreign currency risk associated with certain royalties, intercompany financings and long-term investments in foreign subsidiaries and affiliates. In 2006 and 2005, the Company used foreign currency debt to hedge the foreign currency risk associated with foreign currency denominated cash and equivalents related to HIA. This reduces the impact of fluctuating foreign currencies on cash flows and shareholders' equity. Total foreign currency-denominated debt, including the effects of foreign currency exchange agreements, was $6.8 billion and $8.1 billion for the years ended 2006 and 2005, respectively. In addition, where practical, the Company's restaurants purchase goods and services in local currencies resulting in natural hedges.

The Company does not have significant exposure to any individual counterparty and has master agreements that contain netting arrangements. Certain of these agreements also require each party to post collateral if credit ratings fall below, or aggregate exposures exceed, certain contractual limits. At December 31, 2006 and 2005, the Company was required to post collateral of $49 million and $24 million, respectively.

The Company's net asset exposure is diversified among a broad basket of currencies. The Company's largest net asset exposures (defined as foreign currency assets less foreign currency liabilities) at year end were as follows:

Foreign currency net asset exposures

IN MILLIONS OF U.S. DOLLARS	2006	2005
Euro	**$ 2,758**	$ 2,073
Canadian Dollars	**1,099**	1,070
Australian Dollars	**837**	682
British Pounds Sterling	**770**	822
Brazilian Reais	**431**	395

The Company prepared sensitivity analyses of its financial instruments to determine the impact of hypothetical changes in interest rates and foreign currency exchange rates on the Company's results of operations, cash flows and the fair value of its financial instruments. The interest rate analysis assumed a one percentage point adverse change in interest rates on all financial instruments but did not consider the effects of the reduced level of economic activity that could exist in such an environment. The foreign currency rate analysis assumed that each foreign currency rate would change by 10% in the same direction relative to the U.S. Dollar on all financial instruments; however, the analysis did not include the potential impact on sales levels, local currency prices or the effect of fluctuating currencies on the Company's anticipated foreign currency royalties and other payments received in the U.S. Based on the results of these analyses of the Company's financial instruments, neither a one percentage point adverse change in interest rates from 2006 levels nor a 10% adverse change in foreign currency rates from 2006 levels would materially affect the Company's results of operations, cash flows or the fair value of its financial instruments.

Contractual obligations and commitments

The Company has long-term contractual obligations primarily in the form of lease obligations (related to both Company-operated and franchised restaurants) and debt obligations. In addition, the Company has long-term revenue and cash flow streams that relate to its franchise arrangements. Cash provided by operations (including cash provided by these franchise arrangements) along with the Company's borrowing capacity and other sources of cash will be used to satisfy the obligations. The following table summarizes the Company's contractual obligations and their aggregate maturities as well as future minimum rent payments due to the Company under existing franchise arrangements as of December 31, 2006. (See discussions of Cash flows and Financial position and capital resources as well as the Notes to the consolidated financial statements for further details.)

	Contractual cash outflows		*Contractual cash inflows*
IN MILLIONS	*Operating leases*	*Debt obligations*[1]	*Minimum rent under franchise arrangements*
2007	$ 1,102	$ 18	$ 1,932
2008	1,030	3,240	1,883
2009	953	406	1,824
2010	874	1,708	1,749
2011	798	544	1,665
Thereafter	6,363	2,409	12,386
Total	$11,120	$8,325	$ 21,439

(1) The maturities reflect reclassifications of short-term obligations to long-term obligations of $1.2 billion, as they are supported by a long-term line of credit agreement expiring in 2010. Debt obligations do not include $109 million of SFAS No. 133 noncash fair value adjustments. This effect is excluded because these adjustments ultimately have no impact on the obligation at maturity.

The Company maintains certain supplemental benefit plans that allow participants to (i) make tax-deferred contributions and (ii) receive Company-provided allocations that cannot be made under the qualified benefit plans because of Internal Revenue Service limitations. The investment alternatives and returns are based on certain market-rate investment alternatives under the Company's qualified Profit Sharing and Savings Plan. Total liabilities for the supplemental plans were $379 million at December 31, 2006 and $366 million at December 31, 2005 and were included in other long-term liabilities in the Consolidated balance sheet.

In addition to long-term obligations, the Company had guaranteed certain affiliate and other loans totaling $12 million at December 31, 2006.

OTHER MATTERS

Critical accounting policies and estimates

Management's discussion and analysis of financial condition and results of operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as related disclosures. On an ongoing basis, the Company evaluates its estimates and judgments based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under various assumptions or conditions.

The Company reviews its financial reporting and disclosure practices and accounting policies quarterly to ensure that they provide accurate and transparent information relative to the current economic and business environment. The Company believes that of its significant accounting policies, the following involve a higher degree of judgment and/or complexity:

• *Property and equipment*

Property and equipment are depreciated or amortized on a straight-line basis over their useful lives based on management's estimates of the period over which the assets will generate revenue (not to exceed lease term plus options for leased property). The useful lives are estimated based on historical experience with similar assets, taking into account anticipated technological or other changes. The Company periodically reviews these lives relative to physical factors, economic factors and industry trends. If there are changes in the planned use of property and equipment, or if technological changes occur more rapidly than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation and amortization expense or write-offs in future periods.

• *Share-based compensation*

The Company has share-based compensation plans which authorize the granting of various equity-based incentives including stock options and RSUs to employees and nonemployee directors. The expense for these equity-based incentives is based on their fair value at date of grant and amortized over their vesting period.

The fair value of each stock option granted is estimated on the date of grant using a closed-form pricing model. The pricing model requires assumptions such as the expected life of the stock option and expected volatility of the Company's stock over the expected life, which significantly impact the assumed fair value. The Company uses historical data to determine these assumptions and if these assumptions change significantly for future grants, share-based compensation expense will fluctuate in future years. The fair value of each RSU granted is equal to the market price of the Company's stock at date of grant less the present value of expected dividends over the vesting period.

• *Long-lived assets impairment review*

Long-lived assets (including goodwill) are reviewed for impairment annually in the fourth quarter and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In assessing the recoverability of the Company's long-lived assets, the Company considers changes in economic conditions and makes assumptions regarding estimated future cash flows and other factors. Estimates of future cash flows are highly subjective judgments based on the Company's experience and knowledge of its operations. These estimates can be significantly impacted by many factors including changes in global and local business and economic conditions, operating costs, inflation, competition, and consumer and demographic trends. The biggest assumption impacting estimated future cash flows is the estimated change in comparable sales. If the Company's estimates or underlying assumptions change in the future, the Company may be required to record impairment charges.

• *Litigation accruals*

From time to time, the Company is subject to proceedings, lawsuits and other claims related to competitors, customers, employees, franchisees, government agencies, intellectual property, shareholders and suppliers. The Company is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of accrual required, if any, for these contingencies is made after careful analysis of each matter. The required accrual may change in the future due to new developments in each matter or changes in approach such as a change in settlement strategy in dealing with these matters. The Company does not believe that any such matter currently being reviewed will have a material adverse effect on its financial condition or results of operations.

• *Income taxes*

The Company records a valuation allowance to reduce its deferred tax assets if it is more likely than not that some portion or all of the deferred assets will not be realized. While the Company has considered future taxable income and ongoing prudent and feasible tax strategies in assessing the need for the valuation allowance, if these estimates and assumptions change in the future, the Company may be required to adjust its valuation allowance. This could result in a charge to, or an increase in, income in the period such determination is made.

In addition, the Company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions. The Company records accruals for the estimated outcomes of these audits, and the accruals may change in the future due to new developments in each matter. During 2005, the Company recorded a $179 million benefit due to favorable audit settlement of the Company's 2000-2002 U.S. tax returns. The Company's 2003-2004 U.S. tax returns are under audit and are expected to be settled in 2007.

Deferred U.S. income taxes have not been recorded for basis differences totaling $5 billion related to investments in certain foreign subsidiaries and corporate joint ventures. The basis differences consist primarily of undistributed earnings that are considered permanently invested in operations outside the U.S. If management's intentions change in the future, deferred taxes may need to be provided.

Effects of changing prices—inflation

The Company has demonstrated an ability to manage inflationary cost increases effectively. This is because of rapid inventory turnover, the ability to adjust menu prices, cost controls and substantial property holdings, many of which are at fixed costs and partly financed by debt made less expensive by inflation.

Reconciliation of returns on incremental invested capital

Return on incremental invested capital (ROIIC) is a measure reviewed by management over one-year and three-year time periods to evaluate the overall profitability of the business units, the effectiveness of capital deployed and the future allocation of capital. This measure is calculated using operating income and constant foreign exchange rates to exclude the impact of foreign currency translation. The numerator is the Company's incremental operating income plus depreciation and amortization, from the base period. The denominator is the weighted-average adjusted cash used for investing activities during the applicable one- or three-year period.

Adjusted cash used for investing activities is defined as cash used for investing activities adjusted for cash generated from (used for) investing activities related to Chipotle. The weighted-average adjusted cash used for investing activities is based on a weighting applied on a quarterly basis. These weightings are used to reflect the estimated contribution of each quarter's investing activities to incremental operating income. For example, fourth quarter 2006 cash used for investing activities is weighted less because the assets purchased have only recently been deployed and would have generated little incremental operating income (12.5% of fourth quarter 2006 cash used for investing activities is included in the one-year and three-year calculations). In contrast, fourth quarter 2005 cash used for investing activities is heavily weighted because the assets purchased were deployed more than 12 months ago, and therefore have a full year impact on 2006 operating income, with little or no impact to the base period (87.5% and 100.0% of fourth quarter 2005 cash used for investing activities is included in the one-year and three-year calculations, respectively). Management believes that weighting cash used for investing activities provides a more accurate reflection of the relationship between its investments and returns than a simple average.

The reconciliations to the most comparable measurements, in accordance with accounting principles generally accepted in the U.S., for the numerator and denominator of the one-year and three-year ROIIC are as follows:

One-year ROIIC calculation

Years ended December 31, **2006**		*2005*	*Incremental change*
NUMERATOR:			
Operating income	**$4,445.1**	$3,992.5	$ 452.6
Depreciation and amortization[1]	**1,224.9**	1,220.3	4.6
Currency translation[2]			(41.2)
Incremental operating income plus depreciation and amortization (at constant foreign exchange rates)			**$ 416.0**
DENOMINATOR:			
Weighted-average adjusted cash used for investing activities[3]			**$1,661.4**
Currency translation[2]			12.6
Weighted-average adjusted cash used for investing activities (at constant foreign exchange rates)			**$1,674.0**
One-year ROIIC[4]			**24.9%**

(1) Represents depreciation and amortization from continuing operations.

(2) Represents the effect of foreign currency translation by translating results at an average exchange rate for the periods measured.

(3) Determined by weighting the adjusted cash used for investing activities for each quarter in the two-year period ended December 31, 2006 by applying the weightings below.

	Years ended December 31,	
	2005	***2006***
Cash used for investing activities	*$1,817.8*	***$ 1,273.4***
Adjusted for cash generated from (used for) investing activities related to Chipotle	*(83.9)*	***219.2***
Adjusted cash used for investing activities	*$1,733.9*	***$ 1,492.6***
AS A PERCENT		
Quarters ended:		
March 31	*12.5%*	*87.5%*
June 30	*37.5*	*62.5*
September 30	*62.5*	*37.5*
December 31	*87.5*	*12.5*

(4) The increase in impairment and other charges (credits), net between 2006 and 2005 negatively impacted the one-year ROIIC by 9.5 percentage points.

Three-year ROIIC calculation

Years ended December 31, **2006**		*2003*	*Incremental change*
NUMERATOR:			
Pro forma operating income[5]	**$4,445.1**	$2,482.6	$ 1,962.5
Depreciation and amortization[6]	**1,224.9**	1,133.9	91.0
Currency translation[7]			(272.0)
Incremental operating income plus depreciation and amortization (at constant foreign exchange rates)			**$ 1,781.5**
DENOMINATOR:			
Weighted-average adjusted cash used for investing activities[8]			**$ 4,328.9**
Currency translation[7]			(13.1)
Weighted-average adjusted cash used for investing activities (at constant foreign exchange rates)			**$ 4,315.8**
Three-year ROIIC[9]			**41.3%**

(5) Share-based expense as reported in the Company's year-end 2003 Form 10-K was $224.1 million after tax ($354.4 million pretax). For comparability purposes to 2006 results subsequent to adopting SFAS No. 123(R), the 2003 reported operating income of $2,837.0 million was adjusted for this pro forma expense.

(6) Represents depreciation and amortization from continuing operations.

(7) Represents the effect of foreign currency translation by translating results at an average exchange rate for the periods measured.

(8) Represents three-year weighted-average adjusted cash used for investing activities, determined by applying the weightings below to the adjusted cash used for investing activities for each quarter in the four-year period ended December 31, 2006.

	Years ended December 31,			
	2003	*2004*	*2005*	***2006***
Cash used for investing activities	*$1,369.6*	*$1,383.1*	*$1,817.8*	***$1,273.4***
Adjusted for cash generated from (used for) investing activities related to Chipotle	*(77.7)*	*(97.8)*	*(83.9)*	***219.2***
Adjusted cash used for investing activities	*$1,291.9*	*$1,285.3*	*$1,733.9*	***$1,492.6***
AS A PERCENT				
Quarters ended:				
March 31	*12.5%*	*100.0%*	*100.0%*	*87.5%*
June 30	*37.5*	*100.0*	*100.0*	*62.5*
September 30	*62.5*	*100.0*	*100.0*	*37.5*
December 31	*87.5*	*100.0*	*100.0*	*12.5*

(9) The decrease in impairment and other charges (credits), net between 2006 and 2003 benefited the three-year ROIIC by 6.7 percentage points.

Risk factors and cautionary statement about forward-looking information

This report includes forward-looking statements about our plans and future performance, including those under Outlook for 2007. These statements use such words as "may," "will," "expect," "believe" and "plan." They reflect our expectations about the future and speak only as of the date of this report. We do not undertake to update or revise them. Our expectations (or the underlying assumptions) may change or not be realized, and you should not place undue reliance on forward-looking statements. We have identified the principal risks and uncertainties that affect our performance in the Company's filings with the Securities and Exchange Commission, and investors are urged to consider these risks and uncertainties when evaluating our historical and expected performance.

CONSOLIDATED STATEMENT OF INCOME

IN MILLIONS, EXCEPT PER SHARE DATA	*Years ended December 31,* ***2006***	*2005*	*2004*
REVENUES			
Sales by Company-operated restaurants	**$16,082.7**	$ 14,726.6	$ 13,755.2
Revenues from franchised and affiliated restaurants	**5,503.7**	5,105.9	4,838.8
Total revenues	**21,586.4**	19,832.5	18,594.0
OPERATING COSTS AND EXPENSES			
Company-operated restaurant expenses			
Food & paper	**5,349.7**	5,004.9	4,698.2
Payroll & employee benefits	**4,185.4**	3,860.4	3,586.5
Occupancy & other operating expenses	**4,006.6**	3,709.2	3,403.2
Franchised restaurants-occupancy expenses	**1,060.4**	1,021.5	1,002.7
Selling, general & administrative expenses	**2,337.9**	2,167.1	1,939.1
Impairment and other charges (credits), net	**134.2**	(28.4)	281.4
Other operating expense, net	**67.1**	105.3	145.0
Total operating costs and expenses	**17,141.3**	15,840.0	15,056.1
Operating income	**4,445.1**	3,992.5	3,537.9
Interest expense-net of capitalized interest of $5.4, $4.9 and $4.1	**402.0**	356.1	358.4
Nonoperating income, net	**(123.3)**	(38.0)	(21.2)
Income from continuing operations before provision for income taxes	**4,166.4**	3,674.4	3,200.7
Provision for income taxes	**1,293.4**	1,088.0	923.2
Income from continuing operations	**2,873.0**	2,586.4	2,277.5
Income from discontinued operations (net of taxes of $96.8, $11.4 and $0.7)	**671.2**	15.8	1.0
Net income	**$ 3,544.2**	$ 2,602.2	$ 2,278.5
Per common share-basic:			
Continuing operations	**$ 2.33**	$ 2.05	$ 1.81
Discontinued operations	**0.54**	0.01	-
Net income	**$ 2.87**	$ 2.06	$ 1.81
Per common share-diluted:			
Continuing operations	**$ 2.30**	$ 2.03	$ 1.79
Discontinued operations	**0.53**	0.01	-
Net income	**$ 2.83**	$ 2.04	$ 1.79
Dividends per common share	**$ 1.00**	$ 0.67	$ 0.55
Weighted-average shares outstanding-basic	**1,234.0**	1,260.4	1,259.7
Weighted-average shares outstanding-diluted	**1,251.7**	1,274.2	1,273.7

See Notes to consolidated financial statements.

CONSOLIDATED BALANCE SHEET

IN MILLIONS, EXCEPT PER SHARE DATA	December 31, 2006	2005
ASSETS		
Current assets		
Cash and equivalents	$ 2,136.4	$ 4,260.6
Accounts and notes receivable	904.2	793.9
Inventories, at cost, not in excess of market	149.0	144.3
Prepaid expenses and other current assets	435.7	640.2
Discontinued operations		380.0
Total current assets	3,625.3	6,219.0
Other assets		
Investment in and advances to affiliates	1,036.2	1,035.4
Goodwill, net	2,209.2	1,924.4
Miscellaneous	1,307.4	1,236.7
Total other assets	4,552.8	4,196.5
Property and equipment		
Property and equipment, at cost	31,810.2	29,482.5
Accumulated depreciation and amortization	(10,964.5)	(9,909.2)
Net property and equipment	20,845.7	19,573.3
Total assets	$ 29,023.8	$ 29,988.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Notes payable	$ -	$ 544.0
Accounts payable	834.1	678.0
Income taxes	250.9	569.6
Other taxes	251.4	233.1
Accrued interest	135.1	158.5
Accrued payroll and other liabilities	1,518.9	1,158.1
Current maturities of long-term debt	17.7	658.5
Discontinued operations		107.9
Total current liabilities	3,008.1	4,107.7
Long-term debt	8,416.5	8,934.3
Other long-term liabilities	1,074.9	851.5
Deferred income taxes	1,066.0	949.2
Shareholders' equity		
Preferred stock, no par value; authorized - 165.0 million shares; issued - none		
Common stock, $.01 par value; authorized - 3.5 billion shares; issued - 1,660.6 million shares	16.6	16.6
Additional paid-in capital	3,445.0	2,720.2
Retained earnings	25,845.6	23,516.0
Accumulated other comprehensive income (loss)	(296.7)	(733.1)
Common stock in treasury, at cost; 456.9 and 397.4 million shares	(13,552.2)	(10,373.6)
Total shareholders' equity	15,458.3	15,146.1
Total liabilities and shareholders' equity	$ 29,023.8	$ 29,988.8

See Notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

IN MILLIONS	*Years ended December 31,* ***2006***	*2005*	*2004*
Operating activities			
Net income	**$ 3,544.2**	$ 2,602.2	$ 2,278.5
Adjustments to reconcile to cash provided by operations			
Charges and credits:			
Depreciation and amortization	**1,249.9**	1,249.5	1,201.0
Deferred income taxes	**28.7**	(34.6)	(177.0)
Income taxes audit benefit		(178.8)	
Impairment and other charges (credits), net	**134.2**	(28.4)	281.4
Gains on Chipotle disposition, net of tax	**(653.0)**		
Share-based compensation	**122.5**	152.0	11.0
Other	**78.2**	162.8	118.4
Changes in working capital items:			
Accounts receivable	**(90.8)**	(56.5)	(35.9)
Inventories, prepaid expenses and other current assets	**(1.6)**	(29.4)	(14.9)
Accounts payable	**82.8**	35.8	86.7
Income taxes	**(350.3)**	442.9	84.2
Other accrued liabilities	**196.7**	19.5	70.2
Cash provided by operations	**4,341.5**	4,337.0	3,903.6
Investing activities			
Property and equipment expenditures	**(1,741.9)**	(1,606.8)	(1,419.3)
Purchases of restaurant businesses	**(238.6)**	(343.5)	(149.7)
Sales of restaurant businesses and property	**315.7**	259.1	306.3
Chipotle disposition	**281.7**		
Other	**109.7**	(126.6)	(120.4)
Cash used for investing activities	**(1,273.4)**	(1,817.8)	(1,383.1)
Financing activities			
Net short-term borrowings (repayments)	**34.5**	22.7	35.9
Long-term financing issuances	**1.9**	3,107.9	225.6
Long-term financing repayments	**(2,301.1)**	(1,518.3)	(1,077.0)
Treasury stock purchases	**(2,959.4)**	(1,202.0)	(621.0)
Common stock dividends	**(1,216.5)**	(842.0)	(695.0)
Proceeds from stock option exercises	**975.7**	768.1	580.5
Excess tax benefit on share-based compensation	**87.1**	70.1	
Other	**185.5**	(44.9)	(82.5)
Cash provided by (used for) financing activities	**(5,192.3)**	361.6	(1,633.5)
Cash and equivalents increase/(decrease)	**(2,124.2)**	2,880.8	887.0
Cash and equivalents at beginning of year	**4,260.6**	1,379.8	492.8
Cash and equivalents at end of year	**$ 2,136.4**	$ 4,260.6	$ 1,379.8
Supplemental cash flow disclosures			
Interest paid	**$ 430.3**	$ 390.3	$ 370.2
Income taxes paid	**1,528.5**	795.1	1,017.6

See Notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

IN MILLIONS, EXCEPT PER SHARE DATA	*Common stock issued*		*Additional paid-in capital*	*Retained earnings*	*Accumulated other comprehensive income (loss)*			*Common stock in treasury*		*Total shareholders' equity*
	Shares	*Amount*			*Pensions*	*Deferred hedging adjustment*	*Foreign currency translation*	*Shares*	*Amount*	
Balance at December 31, 2003	1,660.6	$16.6	$ 1,747.0	$20,172.3	$ -	$(0.5)	$(635.0)	(398.7)	$(9,318.5)	$11,981.9
Net income				2,278.5						2,278.5
Translation adjustments (including tax benefits of $106.3)							554.7			554.7
Fair value adjustments-cash flow hedges (including tax benefits of $3.3)						(15.2)				(15.2)
Comprehensive income										2,818.0
Common stock cash dividends ($.55 per share)				(695.0)						(695.0)
ESOP loan payment			7.9							7.9
Treasury stock purchases								(22.2)	(605.3)	(605.3)
Stock option exercises and other (including tax benefits of $87.3)			348.3					30.2	345.7	694.0
Balance at December 31, 2004	1,660.6	16.6	2,103.2	21,755.8	-	(15.7)	(80.3)	(390.7)	(9,578.1)	14,201.5
Net income				2,602.2						2,602.2
Translation adjustments (including taxes of $189.6)							(634.3)			(634.3)
Fair value adjustments-cash flow hedges (including taxes of $5.6)						(2.8)				(2.8)
Comprehensive income										1,965.1
Common stock cash dividends ($.67 per share)				(842.0)						(842.0)
ESOP loan payment			7.0							7.0
Treasury stock purchases								(39.5)	(1,228.1)	(1,228.1)
Share-based compensation			152.0							152.0
Stock option exercises and other (including tax benefits of $86.9)			458.0					32.8	432.6	890.6
Balance at December 31, 2005	1,660.6	16.6	2,720.2	23,516.0	-	(18.5)	(714.6)	(397.4)	(10,373.6)	15,146.1
Net income				**3,544.2**						**3,544.2**
Translation adjustments (including taxes of $95.6)							**514.7**			**514.7**
Fair value adjustments-cash flow hedges (including tax benefits of $0.6)						**10.7**				**10.7**
Comprehensive income										**4,069.6**
Adjustment to initially apply SFAS No. 158 (including tax benefits of $39.2)					**(89.0)**					**(89.0)**
Common stock cash dividends ($1.00 per share)				**(1,216.5)**						**(1,216.5)**
ESOP loan payment			**7.3**							**7.3**
Treasury stock purchases								**(98.4)**	**(3,718.9)**	**(3,718.9)**
Share-based compensation			**122.5**							**122.5**
Stock option exercises and other (including tax benefits of $125.4)			**595.0**	**1.9**				**38.9**	**540.3**	**1,137.2**
Balance at December 31, 2006	**1,660.6**	**$16.6**	**$3,445.0**	**$25,845.6**	**$(89.0)**	**$(7.8)**	**$(199.9)**	**(456.9)**	**$(13,552.2)**	**$15,458.3**

See Notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of business

The Company primarily franchises and operates McDonald's restaurants in the food service industry. The Company also operates Boston Market in the U.S. and has a minority ownership in U.K.-based Pret A Manger. Prior to October 2006, the Company had an ownership interest in Chipotle Mexican Grill (Chipotle). During 2006, the Company disposed of its investment in Chipotle through sales of shares and ultimately a tax-free exchange of all remaining shares held.

All restaurants are operated either by the Company, by independent entrepreneurs under the terms of franchise arrangements (franchisees), or by affiliates and developmental licensees operating under license agreements.

Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Substantially all investments in affiliates owned 50% or less (primarily McDonald's Japan) are accounted for by the equity method.

Estimates in financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Reclassifications

Certain prior period amounts have been reclassified to conform to current year presentation, including reclassifying results and amounts from Chipotle to discontinued operations.

Revenue recognition

The Company's revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees/licensees and affiliates. Sales by Company-operated restaurants are recognized on a cash basis. The Company presents sales net of sales tax and other sales-related taxes. Fees from franchised and affiliated restaurants include continuing rent and service fees, initial fees, and royalties received from foreign affiliates and developmental licensees. Continuing fees and royalties are recognized in the period earned. Initial fees are recognized upon opening of a restaurant, which is when the Company has performed substantially all initial services required by the franchise arrangement.

Foreign currency translation

The functional currency of substantially all operations outside the U.S. is the respective local currency, except for a small number of countries with hyperinflationary economies, where the functional currency is the U.S. Dollar.

Advertising costs

Advertising costs included in expenses of Company-operated restaurants primarily consist of contributions to advertising cooperatives and were (in millions): 2006-$689.8; 2005-$644.0; 2004-$610.2. Production costs for radio and television advertising, primarily in the U.S., are expensed when the commercials are initially aired. These production costs as well as other marketing-related expenses included in selling, general & administrative expenses were (in millions): 2006-$97.4; 2005-$116.7; 2004-$103.7. In addition, significant advertising costs are incurred by franchisees through separate advertising cooperatives in individual markets.

Share-based compensation

Prior to January 1, 2005, the Company accounted for share-based compensation plans under the measurement and recognition provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related Interpretations, as permitted by the Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation* (SFAS No. 123). Accordingly, share-based compensation was included as a pro forma disclosure in the Notes to the consolidated financial statements.

Effective January 1, 2005, the Company adopted the fair value recognition provisions of the Statement of Financial Accounting Standards No. 123(R), *Share-Based Payment* (SFAS No. 123(R)), using the modified-prospective transition method. Under this transition method, compensation cost beginning in 2005 includes the portion vesting in the period for (1) all share-based payments granted prior to, but not vested as of January 1, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and (2) all share-based payments granted subsequent to January 1, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R). Results for prior periods have not been restated.

In 2005, in connection with the adoption of SFAS No. 123(R), the Company adjusted the mix of employee long-term incentive compensation by reducing stock options awarded and increasing certain cash-based compensation (primarily annual incentive-based compensation) and other equity-based awards. In 2006, results included share-based compensation expense of $122.5 million ($82.6 million after tax or $0.07 per share). In 2005, results included share-based compensation expense of $152.0 million ($102.3 million after tax or $0.08 per share). Compensation expense related to share-based awards is generally amortized on a straight-line basis over the vesting period in selling, general & administrative expenses in the Consolidated statement of income. As of December 31, 2006, there was $150.1 million of total unrecognized compensation cost related to nonvested share-based compensation that is expected to be recognized over a weighted-average period of 2.0 years.

The following table illustrates the effect on net income and net income per share for 2004 if the Company had applied the fair value recognition provisions of SFAS No. 123 to options granted under the Company's stock option plans:

Pro forma disclosures

IN MILLIONS, EXCEPT PER SHARE DATA	*2004*
As reported–net income	$ 2,278.5
Add: Total share-based employee compensation included in reported net income, net of related tax effects	6.8
Deduct: Total share-based employee compensation expense determined under fair value method for all awards, net of related tax effects	(156.3)
Pro forma–net income	$ 2,129.0
Net income per share:	
As reported–basic	$ 1.81
Pro forma–basic	$ 1.69
As reported–diluted	$ 1.79
Pro forma–diluted	$ 1.68

The fair value of each stock option granted is estimated on the date of grant using a closed-form pricing model. The following table presents the weighted-average assumptions used in the option pricing model for the 2006, 2005 and 2004 stock option grants. The expected life of the options represents the period of time the options are expected to be outstanding and is based on historical trends. Expected stock price volatility is generally based on the historical volatility of the Company's stock for a period approximating the expected life. The expected dividend yield is based on the Company's most recent annual dividend payout. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant with a term equal to the expected life.

Weighted-average assumptions

	2006	2005	2004
Expected dividend yield	**1.99%**	1.72%	1.51%
Expected stock price volatility	**26.4%**	27.8%	28.6%
Risk-free interest rate	**4.55%**	3.97%	3.93%
Expected life of options *IN YEARS*	**6.22**	7.00	7.00
Fair value per option granted	**$9.72**	$10.06	$ 8.44

Prior to the adoption of SFAS No. 123(R), the Company presented all benefits of tax deductions resulting from the exercise of share-based compensation as operating cash flows in the Consolidated statement of cash flows. SFAS No. 123(R) requires the benefits of tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash flows. Results included $87.1 million and $70.1 million of excess tax benefits as a financing cash inflow in 2006 and 2005, respectively.

Property and equipment

Property and equipment are stated at cost, with depreciation and amortization provided using the straight-line method over the following estimated useful lives: buildings - up to 40 years; leasehold improvements - the lesser of useful lives of assets or lease terms which generally include option periods; and equipment - three to 12 years.

Goodwill

Goodwill represents the excess of cost over the net tangible assets and identifiable intangible assets of acquired restaurant businesses. The Company's goodwill primarily results from purchases of McDonald's restaurants from franchisees and ownership increases in international subsidiaries or affiliates, and it is generally assigned to the reporting unit expected to benefit from the synergies of the combination. If a Company-operated restaurant is sold within 24 months of acquisition, the goodwill associated with the acquisition is written off in its entirety. If a restaurant is sold beyond 24 months from the acquisition, the amount of goodwill written off is based on the relative fair value of the business sold compared to the portion of the reporting unit (defined as each individual country).

In accordance with Statement of Financial Accounting Standards No. 142, *Goodwill and Intangible Assets*, the annual goodwill impairment test, conducted in the fourth quarter, compares the fair value of a reporting unit, generally based on discounted future cash flows, with its carrying amount including goodwill. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is measured as the difference between the implied fair value of the reporting unit's goodwill and the carrying amount of goodwill.

The following table presents the 2006 activity in goodwill by segment:

IN MILLIONS	*U.S.*	*Europe*	*APMEA*[1]	*Latin America*	*Canada*	*Consolidated*
Balance at December 31, 2005	$ 897.8	$ 557.6	$ 212.1	$126.5	$130.4	$ 1,924.4
Net restaurant purchases	115.0	26.1	8.1	4.3	0.4	153.9
Ownership increases in subsidiaries/affiliates			43.2			43.2
Currency translation		68.7	14.5	4.8	(0.3)	87.7
Balance at December 31, 2006	**$1,012.8**	**$652.4**	**$277.9**	**$135.6**	**$130.5**	**$2,209.2**

[1]APMEA represents Asia/Pacific, Middle East and Africa.

Long-lived assets

In accordance with Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS No. 144), long-lived assets are reviewed for impairment annually in the fourth quarter and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of annually reviewing McDonald's restaurant assets for potential impairment, assets are initially grouped together at a television market level in the U.S. and at a country level for each of the international markets. The Company manages its restaurants as a group or portfolio with significant common costs and promotional activities; as such, each restaurant's cash flows are not largely independent of the cash flows of others in a market. If an indicator of impairment (e.g., negative operating cash flows for the most recent trailing 24-month period) exists for any grouping of assets, an estimate of undiscounted future cash flows produced by each individual restaurant within the asset grouping is compared to its carrying value. If an individual restaurant is determined to be impaired, the loss is measured by the excess of the carrying amount of the restaurant over its fair value as determined by an estimate of discounted future cash flows.

Losses on assets held for disposal are recognized when management has approved (and Board of Directors have approved, as required) and committed to a plan to dispose of the assets, the assets are available for disposal, the disposal is probable of occurring within 12 months, and the net sales proceeds are expected to be less than its net book value. Generally, such losses relate to restaurants that have closed and ceased operations as well as businesses or restaurants that meet the criteria to be considered "available for sale" in accordance with SFAS No. 144.

Financial instruments

The Company generally borrows on a long-term basis and is exposed to the impact of interest rate changes and foreign currency fluctuations. The Company uses foreign currency denominated debt and derivative instruments to manage the impact of these changes. The Company does not use derivatives with a level of complexity or with a risk higher than the exposures to be hedged and does not hold or issue derivatives for trading purposes.

The counterparties to these agreements consist of a diverse group of financial institutions. The Company continually monitors its positions and the credit ratings of its counterparties and adjusts positions as appropriate. The Company did not have significant exposure to any individual counterparty at December 31, 2006 and has master agreements that contain netting arrangements. Certain of these agreements also require each party to post collateral if credit ratings fall below, or aggregate exposures exceed, certain contractual limits. At December 31, 2006 and 2005, the Company was required to post collateral of $49.3 million and $24.2 million, respectively.

Statement of Financial Accounting Standards No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS No. 133), as amended, requires companies to recognize all derivatives as either assets or liabilities in the balance sheet at fair value. SFAS No. 133 also requires companies to designate all derivatives that qualify as hedging instruments as fair value hedges, cash flow hedges or hedges of net investments in foreign operations. This designation is based upon the exposure being hedged.

All derivatives, primarily interest rate exchange agreements and foreign currency exchange agreements, were classified in the Consolidated balance sheet at December 31, 2006 and 2005, respectively, as follows: miscellaneous other assets–$40.6 and $83.3 million; other long-term liabilities (excluding accrued interest)–$165.8 and $102.7 million; and accrued payroll and other liabilities–$6.7 and $1.3 million. In addition, for the year ended December 31, 2005, the Company recorded prepaid expenses and other current assets of $6.5 million. All derivative purchases and settlements were classified in Other financing activities in the Consolidated statement of cash flows.

There was no significant impact to the Company's earnings related to the ineffective portion of any hedging instruments for the three years ended December 31, 2006.

• *Fair value hedges*

The Company enters into fair value hedges to reduce the exposure to changes in the fair values of certain assets or liabilities. The types of fair value hedges the Company enters into include (1) interest rate exchange agreements to convert a portion of its fixed-rate debt to floating-rate debt and (2) foreign currency exchange agreements for the exchange of various currencies and interest rates. The foreign currency exchange agreements are entered into to hedge the currency risk associated with debt and intercompany loans denominated in foreign currencies, and essentially result in floating-rate assets or liabilities denominated in U.S. Dollars or appropriate functional currencies.

For fair value hedges, the gains or losses on derivatives as well as the offsetting gains or losses on the related hedged items resulting from changes in fair value are recognized in nonoperating (income)/expense, net.

• *Cash flow hedges*

The Company enters into cash flow hedges to reduce the exposure to variability in certain expected future cash flows. The types of cash flow hedges the Company enters into include (1) interest rate exchange agreements that effectively convert a portion of floating-rate debt to fixed-rate debt and are designed to reduce the impact of interest rate changes on future interest expense, (2) forward foreign exchange contracts and foreign currency options that are designed to protect against the reduction in value of forecasted foreign currency cash flows (such as royalties and other payments denominated in foreign currencies due to changes in foreign currency exchange rates), and (3) foreign currency exchange agreements for the exchange of various currencies and interest rates. The foreign currency exchange agreements hedge the currency risk associated with debt and intercompany loans denominated in foreign currencies, and essentially result in fixed-rate assets or liabilities denominated in U.S. Dollars or appropriate functional currencies.

For cash flow hedges, the effective portion of the gains or losses on derivatives is reported in the deferred hedging adjustment component of accumulated other comprehensive income in shareholders' equity and reclassified into earnings in the same period or periods in which the hedged transaction affects earnings. The remaining gain or loss in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognized in earnings during the period of change.

The Company recorded after-tax adjustments related to cash flow hedges to the deferred hedging adjustment component of accumulated other comprehensive income in shareholders' equity, primarily related to foreign currency exchange agreements that hedge long-term intercompany loans. The Company recorded a net

increase of $10.7 million for the year ended December 31, 2006, and net decreases of $2.8 million and $15.2 million for the years ended December 31, 2005 and 2004, respectively. Based on interest rates and foreign currency exchange rates at December 31, 2006, no significant amount of deferred hedging adjustments, after tax, included in accumulated other comprehensive income in shareholders' equity at December 31, 2006, will be recognized in earnings in 2007 as the underlying hedged transactions are realized. The maximum maturity date of any cash flow hedge of forecasted transactions at December 31, 2006 was 15 months, excluding instruments hedging forecasted payments of variable interest on existing financial instruments that have various maturity dates through 2013.

• *Hedges of net investments in foreign operations*

The Company uses forward foreign exchange contracts, foreign currency exchange agreements and foreign currency denominated debt to hedge its investments in certain foreign subsidiaries and affiliates. Realized and unrealized translation adjustments from these hedges are included in shareholders' equity in the foreign currency translation component of accumulated other comprehensive income and offset translation adjustments on the underlying net assets of foreign subsidiaries and affiliates, which also are recorded in accumulated other comprehensive income.

During the year ended December 31, 2006, the Company recorded a decrease in translation adjustments in accumulated other comprehensive income of $23.2 million after tax (included in the net increase of $514.7 million of translation adjustments in the Consolidated statement of shareholders' equity), related primarily to foreign currency denominated debt designated as hedges of net investments. During the year ended December 31, 2005, the Company recorded an increase in translation adjustments in accumulated other comprehensive income of $356.8 million after tax related to hedges of net investments. During the year ended December 31, 2004, the Company recorded a decrease in translation adjustments of $190.7 million after tax related to hedges of net investments.

Sales of stock by subsidiaries and affiliates

As permitted by Staff Accounting Bulletin No. 51 issued by the Securities and Exchange Commission, when a subsidiary or affiliate sells unissued shares in a public offering, the Company records an adjustment to reflect an increase or decrease in the carrying value of its investment and a resulting nonoperating gain or loss. In 2006, the Company's gain of $32.0 million due to the Chipotle IPO, in accordance with this policy, is reported in discontinued operations.

Income tax contingencies

The Company, like other multi-national companies, is regularly audited by federal, state and foreign tax authorities, and tax assessments may arise several years after tax returns have been filed. Accordingly, tax reserves have been recorded when in management's judgment it is not probable that the Company's tax position will ultimately be sustained. While predicting the outcome of the audits involves uncertainty and requires estimates and informed judgments, we believe that the recorded tax liabilities are adequate and appropriate. The judgments and estimates made at a point in time may change based on the outcome of tax audits, as well as changes to or further interpretation of regulations. Income tax expense is adjusted in the period in which these events occur or when the statute of limitations for a specific exposure item has expired.

In July 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), which is an interpretation of FASB Statement No. 109, *Accounting for Income Taxes*. FIN 48 clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The provisions of FIN 48 are effective January 1, 2007, with the cumulative effect of the change in accounting principle recorded as an adjustment to retained earnings. We are currently evaluating the impact of adopting FIN 48 on our financial statements; however, we do not expect the impact to be significant.

The Company records interest on income tax contingencies in the provision for income taxes.

Per common share information

Diluted net income per common share is calculated using net income divided by diluted weighted-average shares. Diluted weighted-average shares include weighted-average shares outstanding plus the dilutive effect of share-based compensation calculated using the treasury stock method, of (in millions of shares): 2006–17.7; 2005–13.8; 2004–14.0. Stock options that were not included in diluted weighted-average shares because they would have been antidilutive were (in millions of shares): 2006–16.4; 2005–44.4; 2004–85.5.

The Company has elected to not include the pro forma deferred tax asset associated with share-based compensation in net income per share.

Statement of cash flows

The Company considers short-term, highly liquid investments with an original maturity of 90 days or less to be cash equivalents. The positive impact of fluctuating foreign currencies on cash and equivalents, included in other financing activities in the Consolidated statement of cash flows, was approximately $200 million in 2006.

Employers' accounting for defined benefit pension and other postretirement plans

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)* (SFAS No. 158). SFAS No. 158 requires the Company to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in the Consolidated balance sheet and to recognize changes in that funded status in the year changes occur through other comprehensive income. The Company adopted the applicable provisions of SFAS No. 158 effective December 31, 2006, as required. This resulted in a net adjustment to other comprehensive income of $89.0 million for a limited number of applicable international markets.

Sabbatical leave

In June 2006, the FASB ratified Emerging Issues Task Force (EITF) Issue 06-2, *Accounting for Sabbatical Leave and Other Similar Benefits Pursuant to FASB Statement No. 43, Accounting for Compensated Absences* (EITF 06-2). Under EITF 06-2, compensation costs associated with a sabbatical should be accrued

over the requisite service period, assuming certain conditions are met. Previously, the Company expensed sabbatical costs as incurred. The Company adopted EITF 06-2 effective January 1, 2007, as required and accordingly, we expect to record a cumulative adjustment to beginning retained earnings of approximately $35 million in the first quarter of 2007. We expect the annual impact to earnings to be insignificant.

DISCONTINUED OPERATIONS

In first quarter 2006, Chipotle completed an IPO of 6.1 million shares resulting in net proceeds of $120.9 million to Chipotle and a tax-free gain to McDonald's of $32.0 million to reflect an increase in the carrying value of the Company's investment as a result of Chipotle selling shares in the public offering. Concurrent with the IPO, McDonald's sold 3.0 million Chipotle shares, resulting in net proceeds to the Company of $61.4 million and an additional gain of $13.6 million after tax.

In second quarter 2006, McDonald's sold an additional 4.5 million Chipotle shares, resulting in net proceeds to the Company of $267.7 million and a gain of $127.8 million after tax, while still retaining majority ownership. In October 2006, the Company completely separated from Chipotle through a noncash, tax-free exchange of its remaining Chipotle shares for its common stock. McDonald's accepted 18.6 million shares of its common stock in exchange for the 16.5 million shares of Chipotle class B common stock held by McDonald's and recorded a tax-free gain of $479.6 million in the fourth quarter. As a result of the complete disposition of Chipotle, the Company has reflected Chipotle's results of operations through the date of the exchange and transaction gains ($653.0 million net of tax, $0.53 per share-basic and $0.52 per share-diluted) as discontinued operations for all periods presented.

IMPAIRMENT AND OTHER CHARGES (CREDITS), NET

On a pretax basis, the Company recorded impairment and other charges (credits), net of $134.2 million in 2006, ($28.4) million in 2005 and $281.4 million in 2004 associated with impairment, as well as certain strategic actions in 2006 and a lease accounting correction in 2004.

In 2006, the charges primarily related to the following items: losses incurred on the transfers of the Company's ownership interest in certain markets to developmental licensees ($35.8 million); the closing of certain restaurants in the U.K. in conjunction with an overall restaurant portfolio review ($35.3 million); costs to buy out certain litigating franchisees in Brazil ($29.3 million); asset write-offs and other charges in APMEA ($17.5 million); and a loss related to the decision to dispose of supply chain operations in Russia ($13.1 million).

In 2005, the Company recorded $22.8 million of pretax impairment charges primarily in South Korea. In addition, the Company recorded $51.2 million of pretax income, primarily due to the transfer of the Company's ownership interest in Turkey to a developmental licensee and a favorable adjustment to certain liabilities established in prior years due to lower than originally anticipated employee-related and lease termination costs.

In 2004, the Company recorded $130.5 million of pretax impairment charges primarily in South Korea. In addition, like other companies in the restaurant and retail industries, the Company reviewed its accounting practices and policies with respect to leasing transactions. Following this review and in consultation with its external auditors, the Company corrected an error in the amount of $150.9 million pretax in its prior practices to conform the lease term used in calculating straight-line rent expense with the term used to amortize improvements on leased property. The result of the correction primarily accelerated the recognition of rent expense under certain leases that include fixed-rent escalations by revising the computation of straight-line rent expense to include these escalations for certain option periods. As the correction related solely to accounting treatment, it did not affect McDonald's historical or future cash flows or the timing of payments under the related leases. Its effect on the Company's net income per share, cash from operations and shareholders' equity was immaterial. These adjustments primarily impacted the U.S., China and Boston Market. Other markets were less significantly impacted, as many of the leases outside of the U.S. do not contain fixed-rent escalations.

OTHER OPERATING (INCOME) EXPENSE, NET

IN MILLIONS	**2006**	2005	2004
Gains on sales of restaurant businesses	**$ (38.3)**	$ (44.7)	$ (45.0)
Equity in earnings of unconsolidated affiliates	**(76.8)**	(52.8)	(60.0)
Asset dispositions and other expense	**182.2**	202.8	250.0
Total	**$ 67.1**	$ 105.3	$ 145.0

• *Gains on sales of restaurant businesses*

Gains on sales of restaurant businesses include gains from sales of Company-operated restaurants as well as gains from exercises of purchase options by franchisees with business facilities lease arrangements (arrangements where the Company leases the businesses, including equipment, to franchisees who generally have options to purchase the businesses). The Company's purchases and sales of businesses with its franchisees and affiliates are aimed at achieving an optimal ownership mix in each market. Resulting gains or losses are recorded in operating income because the transactions are a recurring part of our business.

• *Equity in earnings of unconsolidated affiliates*

Equity in earnings of unconsolidated affiliates – businesses in which the Company actively participates but does not control – represents McDonald's share of each affiliate's results. These results are reported after interest expense and income taxes, except for partnerships in certain markets such as the U.S., which are reported before income taxes.

• *Asset dispositions and other expense*

Asset dispositions and other expense consists of gains or losses on excess property and other asset dispositions, provisions for contingencies and uncollectible receivables, and other miscellaneous expenses.

FRANCHISE ARRANGEMENTS

Individual franchise arrangements generally include a lease and a license and provide for payment of initial fees, as well as continuing rent and service fees to the Company based upon a percent of sales with minimum rent payments that parallel the Company's underlying leases and escalations (on properties that are leased). McDonald's franchisees are granted the right to operate a restaurant using the McDonald's System and, in most cases, the use of a restaurant facility, generally for a period of 20 years. Franchisees pay related occupancy costs including property taxes, insurance and maintenance. In addition, in certain markets outside the U.S., franchisees pay a refundable, noninterest-bearing security deposit. Foreign affiliates and developmental licensees pay a royalty to the Company based upon a percent of sales.

The results of operations of restaurant businesses purchased and sold in transactions with franchisees, affiliates and others were not material to the consolidated financial statements for periods prior to purchase and sale.

Revenues from franchised and affiliated restaurants consisted of:

IN MILLIONS	***2006***	*2005*	*2004*
Rents and service fees	**$ 5,452.2**	$5,067.9	$4,802.7
Initial fees	**51.5**	38.0	36.1
Revenues from franchised and affiliated restaurants	**$ 5,503.7**	$5,105.9	$4,838.8

Future minimum rent payments due to the Company under existing franchise arrangements are:

IN MILLIONS	*Owned Sites*	*Leased Sites*	*Total*
2007	$ 1,076.8	$ 855.7	$ 1,932.5
2008	1,046.8	836.3	1,883.1
2009	1,009.4	814.1	1,823.5
2010	967.3	782.1	1,749.4
2011	917.9	746.9	1,664.8
Thereafter	6,991.6	5,394.6	12,386.2
Total minimum payments	$12,009.8	$9,429.7	$21,439.5

At December 31, 2006, net property and equipment under franchise arrangements totaled $11.0 billion (including land of $3.2 billion) after deducting accumulated depreciation and amortization of $5.4 billion.

LEASING ARRANGEMENTS

At December 31, 2006, the Company was the lessee at 14,659 restaurant locations through ground leases (the Company leases the land and the Company or franchisee owns the building) and through improved leases (the Company leases land and buildings). Lease terms for most restaurants are generally for 20 years and, in many cases, provide for rent escalations and renewal options, with certain leases providing purchase options. Escalation terms vary by geographic segment with examples including fixed-rent escalations, escalations based on an inflation index, and fair-value market adjustments. The timing of these escalations generally ranges from annually to every five years. For most locations, the Company is obligated for the related occupancy costs including property taxes, insurance and maintenance. However, for franchised sites, the Company requires the franchisees to pay these costs. In addition, the Company is the lessee under noncancelable leases covering certain offices and vehicles.

Future minimum payments required under existing operating leases with initial terms of one year or more are:

IN MILLIONS	*Restaurant*	*Other*	*Total*
2007	$ 1,041.7	$ 60.1	$ 1,101.8
2008	980.4	49.9	1,030.3
2009	908.8	43.8	952.6
2010	838.2	36.3	874.5
2011	767.9	29.8	797.7
Thereafter	6,215.5	147.4	6,362.9
Total minimum payments	$10,752.5	$367.3	$11,119.8

The following table provides detail of rent expense:

IN MILLIONS	***2006***	*2005*	*2004*
Company-operated restaurants:			
U.S.[1]	**$ 130.3**	$ 124.4	$ 107.7
Outside the U.S.	**515.1**	483.9	446.0
Total	**645.4**	608.3	553.7
Franchised restaurants:			
U.S.	**341.1**	320.1	295.5
Outside the U.S.	**312.5**	287.9	280.2
Total	**653.6**	608.0	575.7
Other	**106.9**	98.9	91.4
Total rent expense	**$1,405.9**	$1,315.2	$1,220.8

(1) Includes rent expense of Boston Market of (in millions): 2006-$48.7; 2005-$45.6; 2004-$41.1.

Rent expense included percent rents in excess of minimum rents (in millions) as follows–Company-operated restaurants: 2006-$107.4; 2005-$96.2; 2004-$84.4. Franchised restaurants: 2006-$124.3; 2005-$112.5; 2004-$97.3.

The 2004 rent expense above excludes a correction of $150.9 million ($17.7 million for 2004 and $133.2 million for prior years) in the Company's lease accounting practices made in 2004. See Impairment and other charges (credits), net note for further discussion.

INCOME TAXES

Income from continuing operations before provision for income taxes, classified by source of income, was as follows:

IN MILLIONS	2006	2005	2004
U.S.	**$2,138.2**	$2,024.1	$1,573.5
Outside the U.S.	**2,028.2**	1,650.3	1,627.2
Income from continuing operations before provision for income taxes	**$4,166.4**	$3,674.4	$3,200.7

The provision for income taxes, classified by the timing and location of payment, was as follows:

IN MILLIONS	2006	2005	2004
U.S. federal[1]	**$ 633.2**	$ 598.4	$ 561.8
U.S. state[1]	**108.8**	100.4	56.9
Outside the U.S.	**522.7**	423.8	481.5
Current tax provision	**1,264.7**	1,122.6	1,100.2
U.S. federal	**51.5**	(11.8)	(182.8)
U.S. state	**10.3**	(1.7)	10.0
Outside the U.S.	**(33.1)**	(21.1)	(4.2)
Deferred tax provision (benefit)	**28.7**	(34.6)	(177.0)
Provision for income taxes	**$1,293.4**	$ 1,088.0	$ 923.2

(1) In late 2005, the Company repatriated approximately $3 billion of the earnings of foreign subsidiaries in accordance with the Homeland Investment Act (HIA) and recorded federal tax expense of $104.1 million and state tax expense of $2.2 million.

Net deferred tax liabilities consisted of:

IN MILLIONS	December 31, 2006	2005
Property and equipment	**$ 1,399.0**	$ 1,385.2
Other	**250.3**	143.4
Total deferred tax liabilities	**1,649.3**	1,528.6
Intangible assets	**(315.0)**	(286.5)
Operating loss carryforwards	**(359.0)**	(318.4)
Employee benefit plans	**(249.2)**	(217.8)
Property and equipment	**(237.8)**	(214.7)
Capital loss carryforwards	**(58.4)**	(91.0)
Unrealized foreign exchange losses	**(67.4)**	(88.4)
Other	**(297.3)**	(361.5)
Total deferred tax assets before valuation allowance	**(1,584.1)**	(1,578.3)
Valuation allowance	**437.8**	467.1
Net deferred tax liabilities	**$ 503.0**	$ 417.4
Balance sheet presentation:		
Deferred income taxes	**$ 1,066.0**	$ 949.2
Other assets-miscellaneous	**(490.5)**	(404.8)
Current assets-prepaid expenses and other current assets	**(72.5)**	(127.0)
Net deferred tax liabilities	**$ 503.0**	$ 417.4

The statutory U.S. federal income tax rate reconciles to the effective income tax rates as follows:

	2006	2005	2004
Statutory U.S. federal income tax rate	**35.0%**	35.0%	35.0%
State income taxes, net of related federal income tax benefit	**1.9**	1.8	1.4
Benefits and taxes related to foreign operations	**(5.3)**	(4.7)	(6.5)
Settlement of federal tax audit		(4.8)	
Repatriation of foreign earnings under HIA		2.9	
Other, net	**(0.6)**	(0.6)	(1.1)
Effective income tax rates	**31.0%**	29.6%	28.8%

Deferred U.S. income taxes have not been recorded for basis differences related to investments in certain foreign subsidiaries and corporate joint ventures. These basis differences were approximately $5.0 billion at December 31, 2006 and consisted primarily of undistributed earnings considered permanently invested in operations outside the U.S. Determination of the deferred income tax liability on these unremitted earnings is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

SEGMENT AND GEOGRAPHIC INFORMATION

The Company operates in the food service industry. Revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees and affiliates. Fees from franchised and affiliated restaurants include continuing rent and service fees, initial fees, and royalties received from foreign affiliates and developmental licensees. All intercompany revenues and expenses are eliminated in computing revenues and operating income. Operating income includes the Company's share of operating results of affiliates after interest expense and income taxes, except for affiliates in certain markets such as the U.S., which are reported before income taxes. Royalties and other payments from subsidiaries outside the U.S. were (in millions): 2006-$945.4; 2005-$840.6; 2004-$781.1.

Corporate general & administrative expenses are included in the Corporate & Other segment and consist of home office support costs in areas such as facilities, finance, human resources, information technology, legal, marketing, restaurant operations, supply chain and training. Corporate assets include corporate cash and equivalents, asset portions of financing instruments and home office facilities.

IN MILLIONS	2006	2005	2004
U.S.	**$ 7,464.1**	$ 6,955.1	$ 6,525.6
Europe	**7,637.7**	7,071.8	6,736.3
APMEA	**3,053.5**	2,815.8	2,721.3
Latin America	**1,659.2**	1,326.8	1,007.9
Canada	**1,080.7**	947.8	898.1
Corporate & Other	**691.2**	715.2	704.8
Total revenues	**$ 21,586.4**	$ 19,832.5	$ 18,594.0
U.S.	**$ 2,657.0**	$ 2,421.6	$ 2,181.4
Europe	**1,610.2**	1,449.3	1,471.1
APMEA	**364.4**	345.1	200.4
Latin America	**54.6**	29.6	(19.6)
Canada	**197.6**	155.5	178.0
Corporate & Other	**(438.7)**	(408.6)	(473.4)
Total operating income	**$ 4,445.1**(1)	$ 3,992.5(2)	$ 3,537.9(3)
U.S.	**$ 9,477.4**	$ 8,968.3	$ 8,551.5
Europe	**10,413.9**	9,424.6	10,389.5
APMEA	**3,727.6**	3,596.5	3,853.0
Latin America	**1,778.1**	1,652.8	1,496.6
Canada	**1,268.2**	1,237.7	1,162.4
Corporate & Other	**2,358.6**	4,728.9	2,025.8
Discontinued operations		380.0	358.7
Total assets	**$ 29,023.8**	$ 29,988.8	$ 27,837.5
U.S.	**$ 774.3**	$ 642.4	$ 486.7
Europe	**504.9**	449.5	445.0
APMEA	**208.1**	197.1	157.8
Latin America	**87.1**	84.9	62.6
Canada	**68.4**	64.5	87.5
Corporate & Other	**36.6**	84.5	81.9
Discontinued operations	**62.5**	83.9	97.8
Total capital expenditures	**$ 1,741.9**	$ 1,606.8	$ 1,419.3
U.S.	**$ 390.5**	$ 385.8	$ 394.6
Europe	**436.4**	427.5	422.6
APMEA	**171.8**	168.3	165.6
Latin America	**82.6**	77.5	66.3
Canada	**66.5**	62.2	51.9
Corporate & Other	**77.1**	99.0	79.1
Discontinued operations	**25.0**	29.2	20.9
Total depreciation and amortization	**$ 1,249.9**	$ 1,249.5	$ 1,201.0

See Impairment and other charges (credits), net note for further discussion of the following items:

(1) Includes $134.2 million of charges (Europe-$61.9; APMEA-$48.2; Latin America-$30.6 and Corporate & Other-($6.5)) primarily related to losses incurred on the transfers of the Company's ownership interest in certain markets to developmental licensees and certain other strategic actions.

(2) Includes ($28.4) million of credits (Europe-$4.1; APMEA-($9.1); Latin America-$2.4; and Corporate & Other-($25.8)) primarily related to a gain due to the transfer of the Company's ownership interest in a market to a developmental licensee and reversal of certain restructuring liabilities, partly offset by impairment charges.

(3) Includes $281.4 million of charges (U.S.-$79.8; Europe-$27.0; APMEA-$138.7; Latin America-$2.1; Canada-$3.8 and Corporate & Other-$30.0) primarily related to a correction in the Company's lease accounting practices and policies and impairment.

Total long-lived assets, primarily property and equipment, were (in millions)–Consolidated: 2006-$24,789.3; 2005-$23,192.6; 2004-$24,057.6. U.S. based: 2006-$9,590.4; 2005-$9,187.0; 2004-$8,886.1.

DEBT FINANCING

Line of credit agreements

At December 31, 2006, the Company had a $1.3 billion line of credit agreement expiring in 2010 with fees of 0.08% per annum on the total commitment, which remained unused. Fees and interest rates on this line are based on the Company's long-term credit rating assigned by Moody's and Standard & Poor's. In addition, certain subsidiaries outside the U.S. had unused lines of credit totaling $951.7 million at December 31, 2006; these uncommitted lines of credit were principally short-term and denominated in various currencies at local market rates of interest.

As a result of the Company's decision to repatriate certain foreign earnings under HIA, certain wholly-owned subsidiaries outside the U.S. entered into a multi-currency term loan facility totaling $2.9 billion in 2005. The loan has a three-year term with the ability to prepay without penalty. The loan agreement stipulates future repayments of borrowings reduce the amount available under the facility. At December 31, 2006, the outstanding borrowings under the HIA multi-currency term loan facility totaled $2.4 billion with a weighted-average interest rate of 4.7%.

The weighted-average interest rate of short-term borrowings, excluding HIA-related borrowings, was 5.0% at December 31, 2006 (based on $497.3 million of foreign currency bank line borrowings) and 4.7% at December 31, 2005 (based on $423.4 million of foreign currency bank line borrowings).

Fair values

At December 31, 2006, the fair value of the Company's debt obligations was estimated at $8.6 billion, compared to a carrying amount of $8.4 billion. This fair value was estimated using various pricing models or discounted cash flow analyses that incorporated quoted market prices. The Company has no current plans to retire a significant amount of its debt prior to maturity.

The carrying amounts for both cash and equivalents and notes receivable approximate fair value. Foreign currency and interest rate exchange agreements, foreign currency options and forward foreign exchange contracts were recorded in the Consolidated balance sheet at fair value estimated using various pricing models or discounted cash flow analyses that incorporated quoted market prices. No fair value was estimated for noninterest-bearing security deposits by franchisees, because these deposits are an integral part of the overall franchise arrangements.

Debt obligations

The Company has incurred debt obligations principally through public and private offerings and bank loans. There are no provisions in the Company's debt obligations that would accelerate repayment of debt as a result of a change in credit ratings or a material adverse change in the Company's business. Certain of the Company's debt obligations contain cross-acceleration provisions, and restrictions on Company and subsidiary mortgages and the long-term debt of certain subsidiaries. Under certain agreements, the Company has the option to retire debt prior to maturity, either at par or at a premium over par.

The following table summarizes the Company's debt obligations. (Interest rates reflected in the table include the effects of interest rate and foreign currency exchange agreements.)

		Interest rates[1] *December 31*		*Amounts outstanding December 31*	
IN MILLIONS OF U.S. DOLLARS	*Maturity dates*	***2006***	*2005*	***2006***	*2005*
Fixed-original issue[2]		**4.9%**	4.8%	**$2,375.9**	$ 2,914.6
Fixed-converted via exchange agreements[3]		**4.5**	4.3	**(808.1)**	(1,122.5)
Floating		**5.0**	4.2	**158.7**	196.9
Total U.S. Dollars	2007-2028			**1,726.5**	1,989.0
Fixed		**3.2**	3.4	**448.4**	618.8
Floating		**3.6**	2.6	**2,342.0**	3,019.4
Total Euro	2007-2013			**2,790.4**	3,638.2
Fixed		**6.0**	6.0	**1,067.4**	960.0
Floating		**5.5**	4.8	**785.6**	947.4
Total British Pounds Sterling	2008-2032			**1,853.0**	1,907.4
Total Japanese Yen-fixed	2010-2030	**2.2**	2.0	**549.3**	808.6
Fixed		**4.0**	3.7	**356.8**	347.0
Floating		**5.1**	4.8	**1,049.5**	1,255.6
Total other currencies[4]	2007-2016			**1,406.3**	1,602.6
Debt obligations before fair value adjustments[5]				**8,325.5**	9,945.8
Fair value adjustments[6]				**108.7**	191.0
Total debt obligations[7]				**$ 8,434.2**	$10,136.8

(1) Weighted-average effective rate, computed on a semi-annual basis.

(2) Includes $150 million of debentures that mature in 2027, which are subordinated to senior debt and provide for the ability to defer interest payments up to five years under certain conditions.

(3) A portion of U.S. Dollar fixed-rate debt effectively has been converted into other currencies and/or into floating-rate debt through the use of exchange agreements. The rates shown reflect the fixed rate on the receivable portion of the exchange agreements. All other obligations in this table reflect the net effects of these and other exchange agreements.

(4) Primarily consists of Chinese Renminbi, Hong Kong Dollars, Australian Dollars, Swiss Francs, Korean Won and Singapore Dollars.

(5) Aggregate maturities for 2006 debt balances, before fair value adjustments, were as follows (in millions): 2007-$17.7; 2008-$3,240.1; 2009-$406.3; 2010-$1,708.1; 2011-$544.4; Thereafter-$2,408.9. These amounts include a reclassification of short-term obligations totaling $1.2 billion to long-term obligations as they are supported by a long-term line of credit agreement expiring in 2010.

(6) SFAS No. 133 requires that the underlying items in fair value hedges, in this case debt obligations, be recorded at fair value. The related hedging instrument is also recorded at fair value in either miscellaneous other assets or other long-term liabilities. A portion ($54.8 million) of the adjustments at December 31, 2006 related to interest rate exchange agreements that were terminated in December 2002 and will amortize as a reduction of interest expense over the remaining life of the debt.

(7) Includes notes payable, current maturities of long-term debt and long-term debt included in the Consolidated balance sheet. The decrease in debt obligations from December 31, 2005 to December 31, 2006 was due to net repayments ($2,264.7 million) and SFAS No. 133 non-cash fair value adjustments ($82.3 million), partly offset by the impact of changes in exchange rates on foreign currency denominated debt ($605.5 million) and other changes related primarily to the consolidation of Malaysia ($38.9 million).

ESOP loans and other guarantees

Borrowings related to the ESOP at December 31, 2006, which include $79.1 million of loans from the Company to the ESOP, are reflected as long-term debt with a corresponding reduction of shareholders' equity (additional paid-in capital included a balance of $71.1 million and $77.4 million at December 31, 2006 and 2005 respectively). The ESOP is repaying the loans and interest through 2018 using Company contributions and dividends from its McDonald's common stock holdings. As the principal amount of the borrowings is repaid, the debt and the unearned ESOP compensation (additional paid-in capital) are being reduced.

The Company also has guaranteed certain affiliate and other loans totaling $11.8 million at December 31, 2006. These guarantees are contingent commitments generally issued by the Company to support borrowing arrangements of certain U.S. partnerships and franchisees, and certain affiliates outside the U.S. The terms of the guarantees vary and are equal to the remaining term of the related debt. At December 31, 2006, there was no carrying value for obligations under these guarantees in the Consolidated balance sheet.

EMPLOYEE BENEFIT PLANS

The Company's Profit Sharing and Savings Plan for U.S.-based employees includes a 401(k) feature, a leveraged employee stock ownership (ESOP) feature, and a discretionary employer profit sharing match. The 401(k) feature allows participants to make pretax contributions that are partly matched from shares released under the ESOP. The Profit Sharing and Savings Plan also provides for a discretionary employer profit sharing match at the end of the year for eligible participants who have contributed to the 401(k) feature.

All contributions and related earnings can be invested in several investment alternatives as well as McDonald's common stock in accordance with each participant's elections. Effective January 1, 2007, participants' future contributions to the 401(k) feature and the discretionary employer match are limited to 20% investment in McDonald's Common stock.

Employees of Boston Market participate in a separate retirement plan known as the McDonald's Ventures 401(k) Plan. The Ventures Plan includes 401(k) and matching features. The investment alternatives for the Ventures Plan are identical to the McDonald's Profit Sharing and Savings Plan.

The Company also maintains certain supplemental benefit plans. At the end of 2004, the Company froze the nonqualified, unfunded Supplemental Plan that it previously maintained due to changes under Section 409A of the Internal Revenue Code, so that no new contributions or changes will be made to the Supplemental Plan. Effective January 1, 2005, the Company adopted a new nonqualified, unfunded Excess Benefit and Deferred Bonus Plan that allows participants to (i) make tax-deferred contributions and (ii) receive Company-provided allocations that cannot be made under the Profit Sharing and Savings Plan and Ventures 401(k) Plan because of Internal Revenue Service limitations. The investment alternatives and returns in the Excess Benefit and Deferred Bonus Plan, and also the frozen Supplemental Plan, are based on certain market-rate investment alternatives under the Profit Sharing and Savings Plan. Total combined liabilities under the frozen Supplemental Plan and the Excess Benefit and Deferred Bonus Plan were $378.6 million at December 31, 2006 and $366.5 million at December 31, 2005 and were included in other long-term liabilities in the Consolidated balance sheet.

The Company has entered into derivative contracts to hedge market-driven changes in certain of the Supplemental Plan and Excess Benefit and Deferred Bonus Plan liabilities. At December 31, 2006, derivatives with a fair value of $91.5 million indexed to the Company's stock as well as an investment totaling $78.2 million indexed to certain market indices were included in miscellaneous other assets in the Consolidated balance sheet. All changes in liabilities for these nonqualified plans and in the fair value of the derivatives are recorded in selling, general & administrative expenses. Changes in fair value of the derivatives indexed to the Company's stock are recorded in the income statement because the contracts provide the counterparty with a choice to settle in cash or shares.

Total U.S. costs for the Profit Sharing and Savings Plan and Ventures 401(k) Plan, including nonqualified benefits and related hedging activities, were (in millions): 2006-$61.9; 2005-$59.9; 2004-$58.5. Certain subsidiaries outside the U.S. also offer profit sharing, pension, stock purchase or other similar benefit plans. Total plan costs outside the U.S. were (in millions): 2006-$69.8; 2005-$54.1; 2004-$47.8. The total combined liabilities for the international pension plans of $127.9 million, which were in a limited number of markets, were primarily included in other long-term liabilities in the Consolidated balance sheet.

Other postretirement benefits and postemployment benefits were immaterial.

PROPERTY AND EQUIPMENT

Net property and equipment consisted of:

IN MILLIONS	*December 31,* ***2006***	*2005*
Land	**$ 4,722.7**	$ 4,480.6
Buildings and improvements on owned land	**10,852.5**	10,104.5
Buildings and improvements on leased land	**10,829.4**	9,922.9
Equipment, signs and seating	**4,839.9**	4,398.1
Other	**565.7**	576.4
	31,810.2	29,482.5
Accumulated depreciation and amortization	**(10,964.5)**	(9,909.2)
Net property and equipment	**$20,845.7**	$19,573.3

Depreciation and amortization expense related to continuing operations was (in millions): 2006-$1,180.2; 2005-$1,157.5; 2004-$1,117.4.

CONTINGENCIES

From time to time, the Company is subject to proceedings, lawsuits and other claims related to competitors, customers, employees, franchisees, government agencies, intellectual property, shareholders and suppliers. The Company is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of accrual required, if any, for these contingencies is made after careful analysis of each matter. The required accrual may change in the future due to new developments in each matter or changes in approach such as a change in settlement strategy in dealing with these matters. The Company does not believe that any such matter currently being reviewed will have a material adverse effect on its financial condition or results of operations.

SHARE-BASED COMPENSATION

At December 31, 2006, the Company had a share-based compensation plan, which authorizes the granting of various equity-based incentives including stock options and restricted stock units (RSUs) to employees and nonemployee directors. The number of shares of common stock reserved for issuance under the plans was 155.3 million at December 31, 2006, including 50.8 million available for future grants.

Stock options

Stock options to purchase common stock are granted with an exercise price equal to the closing market price of the Company's stock on the date of grant. Substantially all of the options become exercisable in four equal installments, beginning a year from the date of the grant, and generally expire 10 years from the grant date. Options granted between May 1, 1999 and December 31, 2000 (approximately 26 million options currently outstanding) expire 13 years from the date of grant.

Intrinsic value for stock options is defined as the difference between the current market value and the exercise price. During 2006 and 2005, the total intrinsic value of stock options exercised was $412.6 million and $290.9 million, respectively. Cash received from stock options exercised during 2006 was $975.7 million and the actual tax benefit realized for tax deductions from stock options exercised totaled $111.9 million. The Company uses treasury shares purchased under the Company's historical share repurchase program to satisfy share-based exercises.

A summary of the status of the Company's stock option grants as of December 31, 2006, 2005 and 2004, and changes during the years then ended, is presented in the following table:

				2006		2005		2004
Options	*Shares IN MILLIONS*	*Weighted-average exercise price*	*Weighted-average remaining contractual life IN YEARS*	*Aggregate intrinsic value*	*Shares IN MILLIONS*	*Weighted-average exercise price*	*Shares IN MILLIONS*	*Weighted-average exercise price*
Outstanding at beginning of year	**136.3**	**$28.90**			166.9	$27.80	194.2	$26.90
Granted	**7.0**	**36.36**			7.1	32.59	20.1	26.10
Exercised	**(37.7)**	**26.86**			(32.7)	23.87	(30.0)	20.16
Forfeited/expired	**(3.7)**	**32.51**			(5.0)	30.44	(17.4)	28.99
Outstanding at end of year	**101.9**	**$30.03**	**5.58**	**$1,457.8**	136.3	$28.90	166.9	$27.80
Exercisable at end of year	**78.7**	**$30.50**	**4.93**	**$1,089.3**	103.3		114.7	

RSUs

RSUs generally vest 100% on the third anniversary of the grant and are payable in either shares of McDonald's common stock or cash, at the Company's discretion. Certain executives have been awarded RSUs that are performance-based vesting. The fair value of each RSU granted is equal to the market price of the Company's stock at date of grant less the present value of expected dividends over the vesting period.

A summary of the Company's RSU activity during the years ended December 31, 2006 and 2005 is presented in the following table:

		2006		2005
RSUs	*Shares IN MILLIONS*	*Weighted-average grant date fair value*	*Shares IN MILLIONS*	*Weighted-average grant date fair value*
Nonvested at beginning of year	**2.6**	**$23.60**	1.7	$16.01
Granted	**1.4**	**34.12**	1.2	32.58
Vested	**(1.3)**	**15.24**	(0.1)	14.70
Forfeited	**(0.1)**	**31.78**	(0.2)	19.65
Nonvested at end of year	**2.6**	**$33.00**	2.6	$23.60

The Company granted 0.2 million RSUs in 2004, a majority of which have performance conditions. The Company realized tax deductions of $13.5 million from RSUs vested during 2006. The total fair value of RSUs vested during 2006 and 2005 was $43.8 million and $6.0 million, respectively.

QUARTERLY RESULTS (UNAUDITED)[1]

IN MILLIONS, EXCEPT PER SHARE DATA	Quarters ended December 31 2006	2005	Quarters ended September 30 2006	2005	Quarters ended June 30 2006	2005	Quarters ended March 31 2006	2005
Revenues								
Sales by Company-operated restaurants	**$ 4,194.3**	$ 3,767.7	**$ 4,223.3**	$ 3,836.9	**$ 3,995.6**	$ 3,655.4	**$ 3,669.5**	$ 3,466.6
Revenues from franchised and affiliated restaurants	**1,439.6**	1,293.5	**1,447.9**	1,325.6	**1,371.8**	1,283.9	**1,244.4**	1,202.9
Total revenues	**5,633.9**	5,061.2	**5,671.2**	5,162.5	**5,367.4**	4,939.3	**4,913.9**	4,669.5
Company-operated margin	**681.7**	564.3	**707.0**	588.5	**627.2**	523.9	**525.1**	475.4
Franchised margin	**1,164.2**	1,039.0	**1,175.2**	1,069.2	**1,111.5**	1,030.3	**992.4**	945.9
Operating income	**1,124.6**	927.6	**1,285.5**	1,151.8	**1,123.6**	1,006.7	**911.4**[5]	906.4
Income from continuing operations	**761.2**	604.8	**840.1**	731.0	**698.3**	524.9[4]	**573.4**[5]	725.7[7]
Net income	**$ 1,241.5**[2]	$ 608.5	**$ 843.3**	$ 735.4	**$ 834.1**[3]	$ 530.4[4]	**$ 625.3**[5,6]	$ 727.9[7]
Per common share–basic:								
Income from continuing operations	**$ 0.63**	$ 0.48	**$ 0.68**	$ 0.58	**$ 0.57**	$ 0.42[4]	**$ 0.46**[5]	$ 0.57[7]
Net income	**$ 1.02**[2]	$ 0.48	**$ 0.69**	$ 0.59	**$ 0.68**[3]	$ 0.42[4]	**$ 0.50**[5,6]	$ 0.57[7]
Per common share–diluted:								
Income from continuing operations	**$ 0.61**	$ 0.47	**$ 0.67**	$ 0.57	**$ 0.56**	$ 0.41[4]	**$ 0.45**[5]	$ 0.56[7]
Net income	**$ 1.00**[2]	$ 0.48	**$ 0.68**	$ 0.58	**$ 0.67**[3]	$ 0.42[4]	**$ 0.49**[5,6]	$ 0.56[7]
Dividends declared per common share	**$ -**	$ -	**$ 1.00**	$ 0.67	**$ -**	$ -	**$ -**	$ -
Weighted-average common shares–basic	**1,216.8**	1,259.8	**1,230.4**	1,253.9	**1,235.1**	1,259.5	**1,254.1**	1,268.5
Weighted-average common shares–diluted	**1,238.3**	1,275.7	**1,245.7**	1,271.6	**1,248.0**	1,269.7	**1,271.2**	1,289.0
Market price per common share:								
High	**$ 44.68**	$ 35.69	**$ 40.06**	$ 35.03	**$ 35.99**	$ 31.91	**$ 36.75**	$ 34.56
Low	**38.95**	31.48	**32.75**	27.36	**31.73**	27.74	**33.20**	30.81
Close	**44.33**	33.72	**39.12**	33.49	**33.60**	27.75	**34.36**	31.14

(1) For all periods of 2005 and the first three quarters of 2006, amounts previously reported in the Company's filings included Chipotle activity. As a result of the Company's disposition of its entire investment in Chipotle in October 2006, the above amounts have been adjusted by the following Chipotle activity:

IN MILLIONS	Quarter ended December 31 2005	Quarters ended September 30 2006	2005	Quarters ended June 30 2006	2005	Quarters ended March 31 2006	2005
Revenues							
Sales by Company-operated restaurants	$ 172.6	**$ 210.3**	$ 163.8	**$ 204.3**	$ 155.8	**$ 186.4**	$ 132.9
Revenues from franchised and affiliated restaurants	0.8	**1.0**	0.8	**0.6**	0.6	**0.6**	0.4
Total revenues	173.4	**211.3**	164.6	**204.9**	156.4	**187.0**	133.3
Company-operated margin	23.5	**33.9**	22.3	**36.0**	24.7	**28.0**	15.0
Franchised margin	0.8	**0.7**	0.6	**0.6**	0.4	**0.5**	0.4
Operating income	$ 7.9	**$ 18.0**	$ 8.0	**$ 15.8**	$ 10.0	**$ 12.4**	$ 3.2

(2) Includes a tax-free gain of $479.6 million or $0.39 per share resulting from the Company's complete disposition of Chipotle.

(3) Includes a gain of $127.8 million after tax ($0.11 per share-basic, $0.10 per share-diluted) due to the secondary sale of Chipotle shares.

(4) Includes $112.0 million or $0.09 per share of incremental tax expense for the second quarter of 2005 resulting from the decision to repatriate certain foreign earnings under the Homeland Investment Act.

(5) Includes net pretax charges of $86.1 million ($59.1 million after tax or $0.045 per share) primarily related to a limited number of restaurant closings in the U.K. in conjunction with an overall restaurant portfolio review and costs to buy out certain litigating franchisees in Brazil.

(6) Includes a gain of $45.6 million after tax or $0.035 per share due to the IPO of Chipotle and the concurrent sale of Chipotle shares.

(7) Includes a tax benefit of $178.8 million ($0.14 per share income from continuing operations as well as net income–basic, $0.13 per share net income–diluted) primarily due to a favorable audit settlement of the Company's 2000-2002 U.S. tax returns.

MANAGEMENT'S REPORT

Management is responsible for the preparation, integrity and fair presentation of the consolidated financial statements and Notes to the consolidated financial statements. The financial statements were prepared in accordance with the accounting principles generally accepted in the U.S. and include certain amounts based on management's judgment and best estimates. Other financial information presented is consistent with the financial statements.

Management is also responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934. The Company's internal control over financial reporting is designed under the supervision of the Company's principal executive and financial officers in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

(i) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company;

(ii) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

(iii) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on our assessment and those criteria, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2006.

The Company's independent registered public accounting firm, Ernst & Young LLP, has issued an attestation report on management's assessment of the Company's internal control over financial reporting. That report appears on a subsequent page of this Report and expresses unqualified opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting.

McDONALD'S CORPORATION
February 19, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
McDonald's Corporation

We have audited the accompanying Consolidated balance sheets of McDonald's Corporation as of December 31, 2006 and 2005, and the related Consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of McDonald's Corporation management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of McDonald's Corporation at December 31, 2006 and 2005, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in the Notes to the consolidated financial statements, on December 31, 2006, the Company adopted the provisions of SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans,* and changed its method of recognizing the funded status of its defined benefit postretirement plans. Also, effective January 1, 2005, the Company changed its method for accounting for share-based compensation to conform with SFAS No. 123(R), *Share-Based Payment.*

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of McDonald's Corporation's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 19, 2007 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Chicago, Illinois
February 19, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM ON INTERNAL CONTROL OVER FINANCIAL REPORTING

We have audited management's assessment, included in the accompanying Management's Report, that McDonald's Corporation maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Standards Board (United States), the Consolidated balance sheets of McDonald's Corporation as of December 31, 2006 and 2005, and the related Consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2006 and our report dated February 19, 2007 expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Chicago, Illinois
February 19, 2007

Investor information

Common stock

Ticker symbol
MCD

Stock exchange listings
New York, Chicago and Swiss

McDonald's home office

McDonald's Corporation
McDonald's Plaza
Oak Brook, IL 60523
1.630.623.3000

McDonald's online

Investor information
www.investor.mcdonalds.com

Corporate governance
www.governance.mcdonalds.com

Corporate social responsibility
To view the 2006 Worldwide Corporate Social Responsibility Report, visit
www.csr.mcdonalds.com

Shareholder account access
www.computershare.com/mcdonalds

General information
www.mcdonalds.com

U.S. customer feedback/inquiries
(select "contact us")
www.mcdonalds.com/usa.html

Ronald McDonald House Charities, Inc.
www.rmhc.org

Key phone numbers

Investor Relations
1.630.623.7428

MCDirect Shares
(direct stock purchase plan)
1.800.228.9623

Financials-by-fax
1.630.623.0172

U.S. customer comments/inquiries
1.800.244.6227

Financial media
1.630.623.3678

Franchising
1.630.623.6196

Ronald McDonald House Charities, Inc.
1.630.623.7048

Annual meeting

May 24, 2007
9:00 a.m. Central Time
The Lodge
McDonald's Office Campus
Oak Brook, IL 60523

Live webcast at www.investor.mcdonalds.com

Shareholder account information

Stock transfer agent, registrar and MCDirect Shares administrator
Computershare Trust Company, N.A.

Online
www.computershare.com/mcdonalds

By mail
Computershare Trust Company, N.A.
Attn: McDonald's Shareholder Services
250 Royall Street
Canton, MA 02021

By phone
U.S. and Canada
1.800.621.7825

International
1.312.360.5129

TDD (hearing impaired)
1.312.588.4110

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Trademarks

The following trademarks used herein are the property of McDonald's Corporation and its affiliates: McDonald's, i'm lovin it, Hamburger University, Big Mac, Big Tasty, Happy Meal, Chicken Selects, Snack Wrap, Wobble-icious, Arch Card, Ronald McDonald name and character design, Ja Ja Mundo, McCafé, McDonald's Building design, Extra Value, MCDirect Shares, Ronald McDonald House Charities, **www.mcdonalds.com**, Boston Market, Golden Arches Logo, Big Red French Fry Box Design, World Children's Day.

All other trademarks used herein are those of their respective owners.

Available information

The Company's Chief Executive Officer, James A. Skinner, certified to the New York Stock Exchange (NYSE) on June 6, 2006, pursuant to Section 303A.12 of the NYSE's listing standards, that he was not aware of any violation by the Company of the NYSE's corporate governance listing standards as of that date.

Copies of Certifications dated February 26, 2007 of the Company's Chief Executive Officer, James A. Skinner, and Chief Financial Officer, Matthew H. Paull, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, are attached as Exhibits 31.1 and 31.2, respectively, to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2006. Shareholders may obtain a copy of these certifications and/or a complete copy of the Company's Annual Report on Form 10-K by following the instructions below.

McDonald's Annual Report on Form 10-K

The financial information included in this report was excerpted from the Company's Annual Report on Form 10-K for the period ended December 31, 2006, filed with the Securities and Exchange Commission on February 26, 2007. Shareholders may access a complete copy of the Form 10-K online at **www.investor.mcdonalds.com** or **www.sec.gov**. Shareholders may also request a paper copy at no charge by calling 1.630.623.7428 or writing to McDonald's Corporation, Investor Relations Service Center, Department 300, 2915 Jorie Blvd, Oak Brook, Illinois 60523.

The information in this report is as of March 16, 2007 unless otherwise indicated.

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